

FORMULATION OF THE 1990 FARM BILL
(REVIEW OF THE CROP AND FARM BASE
PROVISIONS OF THE 1985 FOOD SECURITY ACT)

JOINT HEARING
BEFORE THE
SUBCOMMITTEE ON COTTON, RICE, AND SUGAR
AND THE
SUBCOMMITTEE ON
WHEAT, SOYBEANS, AND FEED GRAINS
OF THE
COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

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REVIEW OF THE CROP AND FARM BASE PROVISIONS OF THE 1985 FOOD SECURITY ACT

TUESDAY, JUNE 27, 1989

HOUSE OF REPRESENTATIVES; SUBCOMMITTEE ON COTTON,
RICE, AND SUGAR; JOINTLY WITH THE SUBCOMMITTEE ON
WHEAT, SOYBEANS, AND FEED GRAINS; COMMITTEE ON
AGRICULTURE

Washington, DC.

The subcommittees met, pursuant to notice, at 10:05 a.m., in room 1300, Longworth House Office Building, Hon. Jerry Huckaby (chairman of the Subcommittee on Cotton, Rice, and Sugar) presiding, together with Hon. Dan Glickman (chairman of the Subcommittee on Wheat, Soybeans, and Feed Grains).

Present from the Subcommittee on Cotton, Rice, and Sugar: Representatives Tallon, Espy, Stenholm, Stallings, Sarpalius, Stangeland, Emerson, Lewis, Combest, Herger, and Holloway.

Present from the Subcommittee on Wheat, Soybeans, and Feed Grains: Representatives Johnson, English, Volkmer, Penny, Sarpalius, Marlenee, Stangeland, Roberts, Emerson, and Smith.

Also present: Representative E (Kika) de la Garza, chairman of the committee.

Staff present: Fred J. Clark, associate counsel; Francie Monaghan, clerk; Parks Shackelford, Greg Frazier, Anne C. Keys, Howard Conley, Anita R. Brown, James A. Davis, Cliff Humphrey, and Michael Mishoe.

OPENING STATEMENT OF HON. JERRY HUCKABY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF LOUISIANA

Mr. HUCKABY. The Subcommittee on Cotton, Rice, and Sugar and the Subcommittee on Wheat, Soybeans, and Feed Grains will come to order. Today, we are having a joint public hearing to review the 1985 Food Security Act's crop and farm base provisions, looking toward the 1990 farm bill.

We certainly have a distinguished representation from throughout America with various agricultural interests here testifying before us today, and we look forward to your testimony.

Before we begin with our first witnesses, who are two of our distinguished colleagues, Mr. Roberts from Kansas and Mr. Stenholm from Texas, I would like to yield to the gentleman from Kansas, chairman of the Subcommittee on Wheat, Soybeans, and Feed Grains, for an opening statement.

Mr. Glickman.

**OPENING STATEMENT OF HON. DAN GLICKMAN, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS**

Mr. GLICKMAN. Thank you, Jerry.

Good morning. All in a period of one decade, we have witnessed how quickly the American agricultural sector can climb to the highest levels and fall to the lowest. In 1985, when the Agriculture Committee sat down to write the new farm bill, the problems that the agricultural economy faced were so extensive and intrinsic that it was difficult to know where to begin revamping the old to establish the new. At the time, the Commodity Credit Corporation was holding unprecedented levels of grain which the United States could hardly consume.

One of the key elements of the 1985 farm bill was to control production to manageable levels by creating and implementing relatively stringent crop and farm base provisions. We used these provisions not only as supply tools, but also mechanisms to control Government spending.

Nearly 5 years later, we are beginning to see the fruits of our labor. Wheat, for example, has rebounded considerably well under the farm bill. Due to a lower loan rate, a devalued dollar, and the export programs, and not necessarily in that order, there is clear indication that wheat exports have increased to levels that have not been seen since the early 1980's. Feed grains, on average, have also fared reasonably well under that bill. Even before the drought of 1988, we saw prices rise and stocks decline to more manageable levels.

We achieved these goals while simultaneously bringing Government costs down. Peaking at nearly \$30 billion in 1986, we managed to bring this down to \$12.5 billion in 1988. OMB wants us to bring this amount down even further, hopefully, and today we will hear some ideas on how to achieve additional savings.

I might add parenthetically that not all of this has happened without some serious, disastrous effects among some producers out there in the country.

One cannot examine the successes and failures of the farm bill without simultaneously evaluating the effectiveness of the farm and crop acreage provisions. American agriculture is in a significantly better situation today than it was when we wrote the last farm bill, and I believe that this did not happen by sheer accident.

For the most part, these provisions were the foundation on which the rest of the farm bill was constructed, and when people discuss the 1985 farm bill's successes, they are really talking about the success that these provisions generated.

However, I am not blind to the fact that there are some problems and imperfections with these crop and acreage base provisions. Farmers having to plant program crops to maintain their base for program payments inhibits their ability to plant for the marketplace.

This, in effect, forces farmers to partake in defensive agricultural planning which prohibits them from farming in more economically and environmentally beneficial ways. In theory, this runs contrary to the objectives we sought to accomplish in the 1985 farm bill of

lessening Government intervention in production and marketing decisions.

The recent talk of providing more flexibility to farmers in the 1990 farm bill has received a lot of attention and speculation. We are here today to begin discussing those alternatives.

I would hope that as we approach the next farm bill that we remind ourselves of the tremendous production capacity of American farmland even when placed under stringent crop and farm base provisions such as those mandated in the 1985 farm bill. We must not let drought-depleted stock levels cloud our memory of the times when the CCC was harboring huge quantities of wheat and feed grains in their bins.

However, with world demand for soybeans and soybean byproducts growing at a 4- to 5-percent annual rate, I would personally like to see some progress made toward providing additional flexibility to provide farmers an incentive to plant more soybeans to meet this demand. Some variation of the 10-25 provision that was included in the 1988 Disaster Assistance Act may be a possible option to help ameliorate this deficiency.

Also, due to the inequities in commodity programs and base inflexibility, farmers have been discouraged from planting oats even though its feed and food health values have increased dramatically. The United States should not have to import oats to meet consumer and livestock demands.

In closing, I welcome my colleagues from the Cotton, Rice, and Sugar Subcommittee, as well as the Wheat, Soybeans and Feed Grains Subcommittee, as well as our witnesses today, and I look forward to this discussion on these issues over the next several months.

Thank you, Mr. Chairman.

Mr. HUCKABY. I thank the gentleman for his statement.

Mr. Chairman, do you have any opening remarks you would like to make?

The CHAIRMAN. No.

Mr. HUCKABY. The gentleman from Minnesota, Mr. Stangeland.

OPENING STATEMENT OF HON. ARLAN STANGELAND, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. STANGELAND. Well, thank you, Mr. Chairman. I will just say that I think it is an appropriate time to start these hearings. Today's hearing will focus on probably one of the shortcomings of the 1985 farm bill that we have discovered over the years, and that is the lack of flexibility in that farm bill, and I think we ought to be looking at putting that flexibility into the farm bill to allow farmers to plant for a market, not for rigid Government programs.

So I welcome this hearing. I think the 1985 farm bill was an excellent document. I think it has worked. I think it got agriculture going in the right direction, but there is certainly more we can do, and looking at the question of flexibility of planting and crop acres is one of the improvements that I think we could make in that farm bill.

I thank the chairman.

Mr. HUCKABY. I thank the gentleman.

Does the gentleman from Montana wish to make an opening statement?

**OPENING STATEMENT OF HON. RON MARLENEE, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF MONTANA**

Mr. MARLENEE. Thank you, Mr. Chairman. It has been suggested by some that we look at the options which would allow producers to have a greater degree of flexibility in responding to market signals and in deciding how much of a particular crop will give them the best return on their investment of time, talent, and capital.

This notion of greater flexibility, if properly structured, could indeed result in greater returns for producers from the markets, while also reducing some of the Federal outlays for the price support activities.

Mr. Chairman, I would warn that this is not a catch-all for each and every producer in the country. We must be careful to recognize that in some growing regions, growers are limited as to what alternative crops can actually be produced at a profit. That is one of the tough things about writing a farm bill is, the variation in transportation, climatic conditions, locations, length of growing season, and so forth.

So I commend you for having these hearings, Mr. Chairman, and would ask unanimous consent that the full text of my remarks be included in the record.

Mr. HUCKABY. Without objection, so ordered.

[The prepared statement of Mr. Marlenee follows:]

Statement by Hon. Ron Marlenee, Ranking Member
Subcommittee on Wheat, Soybeans & Feed Grains
Meeting jointly with the Subcommittee on
Sugar, Cotton & Rice
House Committee on Agriculture
Tuesday, June 27, 1989

Mr. Chairman:

Thank you for scheduling this hearing today to give us an opportunity to explore the implementation of the program crop and farm base acreage provisions of the 1985 Food Security Act, and to hear suggestions on what, if any, actions we might want to take regarding these crops for 1990 and the years beyond. I know that as well as the 1985 Act's provisions have generally worked, there are always several fine-tuning options which might make it work ever better for some producers while also meeting our goals of maintaining export opportunities and ensuring that American farm producers have some small measure of income security.

It has been suggested by some that we should look at options which would allow producers to have a greater degree of flexibility in responding to market signals and in deciding how much of a particular crop will give them the best return on their investment of time, talent, and capital. This notion of greater flexibility -- if properly structured -- could indeed result in greater returns to producers from the market, while also reducing some federal outlays

for price support activities. On the other hand, Mr. Chairman, I would warn that this is not a "cure-all" for each and every producer in the land. We must be careful to recognize that in some growing regions, growers are limited as to what alternative crops can actually be produced at a profit.

For example, the option of substituting soybeans for one of the program crops in Montana is simply not a viable alternative given the shortness of the growing season and other factors. Other possible alternative crops might require that the producer invest heavily in new machinery to plant, harvest and handle the new type of crop, and thus he could not be reasonably expected to make any profit on his operations in the near future. Of extreme importance as we examine this subject is the fact that any additional flexibility Congress decides to grant producers for future years should be truly **optional with the producer**, and not somehow a system which **mandates** that he either reduce program crop acreages and/or receive a smaller price guarantee on his production.

With these comments, Mr. Chairman, I will yield back the balance of my time and look forward to hearing from our witnesses.

Mr. HUCKABY. We will now begin with our first witnesses. The gentleman from Kansas, Mr. Roberts.

STATEMENT OF HON. PAT ROBERTS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF KANSAS

Mr. ROBERTS. I want to thank my colleagues—Mr. Glickman, Mr. Marlenee, Mr. Huckaby, and Mr. Stangeland—for calling this hearing to review the whole question of acreage bases in the 1985 Food Security Act.

Mr. Chairman, I ask permission that my full statement be made part of the record, and I will simply paraphrase my remarks.

Mr. HUCKABY. Without objection, it shall be.

Mr. ROBERTS. I don't think there is an issue that has prompted more letters and more phone calls and more hearings and more discussions faced by both my colleague, Mr. Glickman, and myself—I know more especially in the 1st District of Kansas—than this business of the acreage base and how we need more flexibility.

Since 1987 when limited cross-compliance was implemented, many producers, more especially my producers in Kansas, have been forced to make marketing decisions and cropping decisions based on the ASCS program provisions, more often than not to the detriment of what I call just simple common sense.

Unfortunately, the reality of economics during some very tough times has taken away the ability to be flexible, and the fearful fact is that you plant according to your base as a means of economic survival as opposed to any kind of a reasonable farm management plan in behalf of conservation or what the market would dictate.

I think we have a paradox of enormous irony when, today, you find the U.S. food supply is allegedly unsafe, or these charges being made by consumer groups and some environmental groups, and that we are using too many chemicals, too many pesticides to manage our operations. And then on the other side, there are proven methods of conservation and integrated pest management, crop rotation, summer fallow—I had to bring that in—alternate cropping patterns—all methods that require the flexibility to work, but because of the inflexibility of the current acreage base system, we face that paradox.

Second, one of the prime directives of the 1985 act is that agriculture needs to become market-oriented, or more market-oriented, but because our farmers are locked into the planting decisions made 5, 10 years ago—I don't know of any other industry that has to face that kind of decisionmaking—responding to market signals is very, very difficult.

Finally, the lack of realistic flexibility sends a very confusing policy message to farm country. We want surpluses at reasonable levels, but plant that corn, cotton, rice, and wheat if you want your base protected. We want strict adherence to conservation provisions of the farm bill to protect the soil, but rotating your crops may cost you base or it may not; we will get back to you.

We want you to develop sound marketing strategies and utilize the diversification to provide your income and to protect your income, but you had better have the base if your plan includes any kind of program commodities.

I think perhaps most frustrating to me is the fact that the 1985 act does contain the remnants—I say, the remnants—of a provision that was coauthored by myself and my good friend and colleague, Mr. Stenholm.

We had lengthy hearings on that subject and it involved the farm acreage base adjustment authority. This provision allows the Secretary to permit our producers to adjust their crop acreage bases by up to 10 percent of their farm acreage base.

I don't know how many times Charlie and I have banged our knuckles on the door of the U.S. Department of Agriculture, how many times we have called, how many letters we have written. Each time, we get about a 4-page letter back, single-spaced, and it just says no, and usually it is in reference to the guesstimate, if you will, that it will be a cost item; that is, that farmers would simply chase the target price in regard to whatever crop is concerned. I don't buy that, but at least that is the argument.

Earlier this year, Mr. Stenholm and I reintroduced our legislation to address this problem. It is called H.R. 2294. It would have the Secretary, of his discretion, increase the permitted adjustment level up to 20 percent. That was what we tried to do in the 1985 act and we lost that in the Senate when it went to conference.

We do have some things that we have done in regard to flexibility. Every time we have a disaster bill before this committee, or an emergency, we tack on some other crops in regard to short supply and say we have some substitution factors here and there.

And we are micromanaging this from the House Ag Committee. I am not trying to say that is bad. We are trying to step up to a problem, but really, Mr. Chairman and my colleagues, we shouldn't be doing this. It should be the farmer who makes that decision, as opposed to the all-knowing members of the House Ag Committee.

It is time for consistency in base flexibility policies. I really think the farm base acreage concept holds the most promise. It is very similar to the normal crop acres provisions of past programs.

There are key areas needing a much closer look to make this promise a reality. I know it doesn't help the single-base farmer. I look forward to working with my colleagues from the Corn Belt, Cotton Belt, and other areas where this is a factor.

Above all else, whatever changes we make, they must be consistent and they must be predictable. As we all know, the Farm Act of 1985 is very complex, and so while I have a lot of my producers saying I need the flexibility, they don't want change for the sake of change and they need to make long-term planning decisions.

This issue, it seems to me, was Nos. 4 or 5 in most of our farm speeches. I think it was probably No. 2 in Mr. Stenholm's speech and No. 1 in mine for the past 4 or 5 years. Now, it has moved up, and whether you are talking about triple base or substitution or flexibility or whatever, it is now No. 1 or 2 in everybody's laundry list of things that we have to do and the shop mechanic work that we need to do in regard to the farm bill.

So, again, I want to thank my colleagues and friends—more especially, Mr. Huckaby and Mr. Glickman—for holding these hearings, and would hope that we could move in a very deliberate fashion to include some truly needed reform in the new farm bill.

I thank my colleagues.

[The prepared statement of Mr. Roberts appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Roberts. I certainly concur. I think you have been one of the most vocal spokesmen for flexibility, and certainly your message is being heard, I think, more each day.

The gentleman from Texas, Mr. Stenholm.

**STATEMENT OF HON. CHARLES W. STENHOLM, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF TEXAS**

Mr. STENHOLM. Thank you, Mr. Chairman. I would like to associate myself with the remarks from my friend from Kansas, Mr. Roberts.

Mr. HUCKABY. Without objection, it shall be.

Mr. STENHOLM. When we discuss "flexibility," we have found that "flexibility" means different things to different people. Therefore, I commend you for holding this hearing to see if we can find some common definition to what we mean by flexibility and the importance thereof.

I look at this hearing as one of the building blocks of the 1990 farm bill. As we have sensed throughout the country, farmer after farmer, farm group after farm group, there is a consensus that the 1985 farm bill is a good bill, warts and all. You can criticize it, you can find fault with it, but by and large the overwhelming majority of farmers believe that it is the structure that we should build on, and I certainly concur with that opinion.

In so doing, we have to take a look at some of the things that have not worked, and where we have faced problems. As we know, over the last 4 years, there has been the discretionary ability of the Department of Agriculture to make changes to allow greater planting flexibility.

As Mr. Roberts mentioned, the reason that it has not been done is because of Federal budget constraints. However, I would submit that there are very good and valid ways that we can address the budget problem. That should not be a limiting factor.

I will be talking and asking questions throughout the day concerning the yield side of the base question. As one who spent a lot of time on the 1985 farm bill on the base and yield section, we have gotten the credit and also the blame in areas which the unfairness of freezing yields, as well as freezing bases, has locked individuals into an extremely unfair position. This is something that I would like to see this committee work on and provide greater equity.

Any shifting of bases should be taken into consideration by the administration when setting acreage retirement programs or diverted acres so that, in fact, if you had a massive shift, you could make adjustments administratively to avoid any problems.

On that point, we compromised down to 10 percent in the 1985 farm bill. We came from 100 percent down to 10 percent, and then we did not administer the 10 percent.

Mr. HUCKABY. You made it optional.

Mr. STENHOLM. Yes, we created an option. I prefer to have options, quite frankly. I do not like to see us micromanaging farm programs.

If I had my complete way, I would like to see us provide the opportunity for a one-time shift for every farmer in the United States to set his own crop-acreage base, within the concept that we have in the 1985 law, and then to provide for the flexibility to shift based on market decisions.

I think that is very possible. That is not an imaginative concept. We could allow every farmer to set his base and then have the flexibility within the farm bill so that it is a workable policy.

In regards to yields, I readily recognize that the reason we froze yields in the 1985 farm bill is because of budget pressures. Somehow, some way, we have got to find the answer surrounding individual producers increasing their yields for the target price instead of for the market price. If we find the answer to that question, we will solve both of these problems.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Stenholm appears at the conclusion of the hearing.]

Mr. HUCKABY. I thank the gentleman for his testimony.

Does the gentleman from Kansas have any questions?

Mr. GLICKMAN. No. I would just say that I think both my colleagues from Kansas and Mr. Stenholm have hit the nail on the head in terms of providing a program which gives farmers more control over their own destiny, but to do it in a way that is consistent with our national objectives as well.

And I think that your point, Charlie, was you can do both. It is not impossible to do both, and that is what our goal is, to see if we can come up with a system to do it. Unfortunately, I don't know whether we go down the road of making it even more complex, and that, I think, is our job, is to see if we can provide some simplicity to this program.

Anyway, I look forward to hearing the other witnesses, particularly our witnesses from the Department of Agriculture and some of our professors who can talk about ways to set up a program that might work feasibly for our people.

So I thank you both for leading the effort in this way.

Mr. HUCKABY. I thank the gentleman.

Mr. Marlenee.

Mr. MARLENEE. I have no questions for the witnesses, and no terse comments to make, only to say that you do a good job and we are proud of you down there and up here.

Thank you.

Mr. GLICKMAN. Would the gentleman yield for one moment?

We asked Mr. Chowder to come, but he couldn't be here today. I want you to know that. [Laughter.]

Mr. ROBERTS. That is an inside joke, Mr. Chairman.

Mr. HUCKABY. Mr. Stangeland.

Mr. STANGELAND. I don't have any questions at this time. We are going to grill our witnesses at a later date extensively as we go through markup. But I do have an observation for my dear friend from Kansas.

I am told by the grapevine—you know, I heard it through the grapevine—that when the chairman—

Mr. ROBERTS. I pay attention to country-western songs, and I understand that is a rock song, so I would assume it—

Mr. STANGELAND. It is a TV commercial.

Mr. ROBERTS. I am sorry. Go ahead.

Mr. STANGELAND. I am told that when the chairman asks unanimous consent that the staff can make technical and grammatical changes that they have orders to look at your testimony and make sure that summer fallow is inserted if you have forgotten to put it in.

Mr. ROBERTS. I appreciate that from my colleague.

Mr. HUCKABY. Does anyone else have any questions of or statements to the witnesses?

[No response.]

Mr. HUCKABY. If not, thank you, gentlemen.

Our next witness is Mr. John Campbell, Deputy Under Secretary for International Affairs and Commodity Programs, U.S. Department of Agriculture.

John, welcome to our hearings. We look forward to your testimony. You may proceed.

**STATEMENT OF JOHN CAMPBELL, DEPUTY UNDER SECRETARY,
INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS, U.S.
DEPARTMENT OF AGRICULTURE**

Mr. CAMPBELL. Thank you, Mr. Chairmen and ranking members, and members of the subcommittees. At the outset, I would like to say that the Department agrees basically with much of what Mr. Roberts and Mr. Stenholm have to say about flexibility.

The testimony prepared for you this morning is a long testimony. I won't read it to you. I would like to touch on the highlights, and I would also like to express our appreciation for having the opportunity to review the issue of flexibility with you.

The testimony is an attempt to explain and explore where we have been with respect to flexibility, in the hopes that the past will help us decide where we ought to go in the future. I would like to review the history of planting flexibility and the current proposals to increase planting flexibility.

The very arguments made against acreage allotments 30 years ago are being made against the base acre program today. The Agricultural Act of 1970 introduced the set-aside concept in an effort to give farmers more freedom in choosing which crops to plant.

The 1970 act required participating farmers to maintain set-aside acres in a conservation base. Once the set-aside and conservation requirements were satisfied, there were few restrictions on what a farmer could plant on the remaining cropland acres.

Government payments to producers did not depend on the amount of acreage planted to the program crop. In other words, payments were fixed no matter how much, if any, a producer planted to the program crop. Said another way, payments were decoupled from planting decisions and market prices, but producers had to plant at least 90 percent of their allotment to some crop, such as wheat, feed grains, or substitute crops, in order to preserve their allotment.

In 1973, the 1973 act eliminated the conservation base requirement and gave farmers even more flexibility in production decisions. Participants could receive payments with virtually no re-

strictions on acreage plantings, except for meeting any announced set-aside requirements. There was no requirement that the program crop be planted in order to receive a deficiency payment.

The next major act, the 1977 act, determined that deficiency payments and production controls on historical allotments were no longer adequate in light of changes in regional planting patterns.

The new bill, the 1977 bill, determined that deficiency payments should be based on the acres of the program crop planted, but there were no restrictions on the program acres that could be planted. In other words, this is where the current plantings concept began.

The normal crop acreage authority, as operated under the 1977 act, illustrates both the negative and positive aspects of providing producers with planting flexibility. Deficiency payments depended on the acres of the program crop planted. Target prices, not market prices, could dictate planting decisions.

Producers therefore planted acres to the program crop with the highest target prices relative to the cost of production, increasing Government outlays as farm prices dropped for those commodities.

The 1981 act established the concept of base acreage as we know it today. The base concept allowed programs to be implemented that were specifically designed for each individual crop, but it also reestablished the link between future program benefits and current plantings that had been severed by the 1977 act, thereby removing the flexibility of farmers planting decisions among crops.

However, there is one important difference. The 1981 act allowed base acres to be maintained if underplanted acreage was devoted to an acceptable nonprogram crop, such as soybeans. In the 1981 act, it was very easy to preserve your base history. The 1985 act continued the concept of crop acreage bases, but soybeans were no longer considered a nonprogram crop for base protection purposes.

As we all know, market conditions during the period that the 1985 act has been in effect have caused producers to enroll a relatively large percentage of acreage in the annual programs because of the gap between target prices and farm prices. This has tended to lock in production patterns that favor program crops at the expense of nonprogram crops.

There are, as Congressman Roberts pointed out, several provisions in the 1985 act, either original provisions or amendments, that do address the flexibility issue. Those are listed beginning on page 7 under the "Current Provisions" subheading.

There is the 10-percent farm base flexibility adjustment where the Secretary is authorized to allow a producer to increase the crop acreage base of a program crop by up to 10 percent of the farm acreage base if a corresponding acreage decrease occurs in one or more of the other crop acreage bases on the farm. The Secretary has not implemented this provision.

The other provisions probably most widely known are the 0-92 and 50-92 provisions. The 50-92 provision was introduced with the 1985 act so as to not require producers to plant program crops that were already in surplus in order to earn deficiency payments and protect bases.

Under that original provision, you may remember the 1985 act required the Secretary to permit producers to plant any nonpro-

gram crop on that 50-92 acreage. It was a 100-percent flexibility, if you will, with a payment attached to it on at least half of the base.

Three months following enactment of the 1985 act, Congress amended this provision to authorize, instead of require, plantings of specified alternative crops rather than program crops and a wide range of nonprogram crops, and only under certain conditions.

As was mentioned before, the crop acreage base protection as part of section 504 is part of the farm bill. It is a 20-percent provision which I believe has been extended as part of the drought bill by the House.

The 1988 Disaster Act amended the 1949 act to allow plantings of soybeans and sunflowers on 10 to 25 percent of the permitted acreage for the major program crops without any loss of base. There was also, as part of that act, an oat base substitution provision.

There are a couple other provisions in the current law, such as haying and grazing, which do allow some flexibility with respect to the farmer's crop acreage base.

On the legislative initiative side, of course, we have H.R. 2294, introduced by Mr. Stenholm and Mr. Roberts.

The bill would remove the Secretary's discretionary authority to permit or not permit the adjustment for selected crops, and would increase the adjusted percentage to 20 percent of the farm acreage base.

Our estimate is that the impetus to change cropping patterns would likely be based on the returns relative to target prices and would not be responsive to market prices, in general.

The outlay increase from this bill can be conservatively placed at \$250 to \$350 million in each fiscal year, due to increased program payments to corn, cotton, and rice producers.

With respect to the administration's views on planting flexibility, I think it is well known that the Department favors offering producers greater flexibility. In the simplest terms, we want producers to make their cropping decisions in response to market forces.

Today's producers are more likely to respond to program incentives not because they want to, but because farm programs provide no economic alternatives. While most of the agricultural community is in agreement that providing planting flexibility is beneficial, we must be aware that there could be costs associated with flexibility.

These costs could include greater Government expenditures, inability to impact short-run demand, lower income to producers of nonprogram crops, and providing payments on acreage that is unlikely to return to the production of program crops.

The triple-base concept is a step in the right direction, in our opinion. The permitted acreage, the third base no longer eligible for payments or loans, may be planted to any program crop or non-program crop. The acreage would be planted to crops on the basis of market price expectations rather than on the basis of program benefits.

As the committee considers provisions regarding flexibility for the 1990 farm bill, we thought it might be helpful to outline some of the guidelines that we ourselves will be using with respect to ideas about the 1990 bill.

On page 15, we have several points of interest. I will just quickly go through them. We believe that flexibility should mean greater latitude to respond to market signals, not to subsidy benefits. If subsidies are hooked to plantings and plantings are freed up, planting flexibility should be accompanied by a realignment of target prices.

Point No. 4: Providing flexibility must not bust the budget or increase Government exposure. Planting flexibility rules must be equitable to both program crop producers and nonprogram crop producers.

Finally, program payments should be limited to those producers who plant, or would otherwise have planted program crops if not for the increased planting flexibility. And, of course, we wouldn't want to jeopardize any of the conservation provisions of the 1985 act through a flexibility provision in the new act.

In conclusion, Mr. Chairman, the two major impacts of farm programs have been the allocation of acreage and the allocation of payments. Methods for allocating acreage range from the rigid, such as mandatory acreage allotments that were operated up through about the 1960's, to loose, such as the normal crop acreage concept.

The 1985 act made significant progress toward a more market-oriented system on many counts. Under this legislation, markets have expanded both at home and abroad. Farm prices and income have increased and program outlays have begun to decline. It would be beneficial, in our opinion, to continue to move in this direction by promoting increased planting flexibility.

Again, we appreciate the opportunity to appear before you, and we look forward to working with the committee in developing new legislation for the 1990 farm bill. I would be happy to answer any questions.

[The prepared statement of Mr. Campbell appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Campbell, for your very interesting and very thorough testimony, and somewhat specific proposals. It is refreshing to see these. If I might refer to page 14, which you just alluded to, you talk about flexibility and target prices and the fact that they are not equivalent in relationship to the cost of production, and hence our farmers tend to farm the program.

I think your own cost of production data today states that some crops perhaps have up to a 25-percent advantage over other crops as far as their target prices in relationship to the cost of production.

Are you suggesting here that perhaps these should be more equal?

Mr. CAMPBELL. Well, what we are saying is, if you provide flexibility and you make the changes that producers make in their operations available for price and income support, what producers will logically do is pursue the crops that have the greatest economic advantage.

Those crops, as you said, are going to cost the Government more money because more will be produced and the prices will be lower for those specific crops. So, what we are concerned about is getting into a situation where producers would do what I call "chase base."

In other words, they will tailor their operations so that they achieve the greatest economic benefit, and those benefits would be derived by the target price, not the market price.

Mr. HUCKABY. Since World War II, the United States has basically had the ability to produce far more agricultural products than it could sell domestically and in the world, except for perhaps a brief period of time in the 1970's. And we will probably have surpluses in the 1990's and the ability in most of the commodities to produce more than we can consume and can sell.

Does it make sense to have a program where I can move my wheat base into cotton, or I can move my milo into cotton and wheat into corn? What I am alluding to, is a situation where one can transfer base from a commodity with lower input and lower output to a commodity with higher input and output.

For instance, it costs the Government significantly more dollars for cotton per acre than wheat per acre on deficiency payments. It is a more expensive crop, dollars in and dollars out.

In times where you have surpluses of both of these, if you have got a surplus of wheat and you have got a surplus of cotton—you are talking about flexibility—the farmer would like to, in virtually all cases, plant more cotton because he will make more money in this program even if the target prices were equal. Are you saying that we should let him move?

Mr. CAMPBELL. Well, I am saying that if you do let the base move, the farmer's decision should be based on the market price, not the benefits that are derived from the program.

In a situation where, in aggregate, taking agricultural row crops, for example, it could be argued that there is excess capacity, even in that situation a producer is going to make decisions based on the net returns from the marketplace.

Under that circumstance, if we are still operating individual crop supply controls, if one crop is way out of balance with supply relative to another crop, I would imagine that the set-asides would be different for that crop.

So the answer, I think, is, yes, we would probably say let the base move as long as the producers are still receiving the benefit from the marketplace. In the short run, it is difficult to micromanage so that everything is just perfect, but in the long run those differences between crops will probably iron themselves out, again, if you are making decisions based on the market price.

Mr. HUCKABY. Just one comment and then I will yield. We have certain areas of the country where we can only grow one crop, and other areas of the country where we are fortunate and can grow three or four different crops. Here, I can move and respond.

But the person who is in this area where he can only grow this one crop, and it is already in surplus and many more people then move in and produce it, further depressing the price. Granted, in the long run, enough of them will be forced out of business and go bankrupt and the price will come back up. But should the Government intervene here if the crop is already in surplus?

Mr. CAMPBELL. Well, if they are in surplus, I would imagine that there would still be individual crop acreage reduction programs. In other words, the provision included in the 1985 act gave the Secretary discretion to let the base shift regardless of any of these other

considerations, including the consideration of whether or not it cost more money.

I think your concern is valid. For those producers that only have one alternative, is that because they only have one base established or is it because they live in a climatic region that is only good for one crop?

If it is the former rather than the latter, I think it could be worked out where a producer could establish a new base as long as there were some adjustments. But in the latter case where there are simply no cropping alternatives, I can understand why those producers might be concerned.

Mr. HUCKABY. And we have all combinations of these. In certain areas of the country, you can only grow one crop; in other areas, only one base exists. Still another consideration is the economies of equipment. In many areas in the South, we have small cotton farmers with 200 acres of cotton. I have got one \$100,000 cotton picker. I can't afford to buy a combine, or the economics of it don't make sense.

Mr. CAMPBELL. That is true with, of course, the smaller acreages. What producers typically do in those circumstances is work out an arrangement with a neighbor to have the work custom-done. They certainly would not go out and invest in a new line of equipment if the ability to switch was very slight and they had no other acreage that they were adding it to.

For example, if you had a rice producer that only had rice and wanted to grow some wheat, they would probably have to make some alternative arrangements. But if you have a wheat and feed grain producer that simply wants to switch some of his corn over to wheat, that equipment would probably already be there.

Mr. HUCKABY. The gentleman from Minnesota.

Mr. STANGELAND. I have no questions, Mr. Chairman, but I just want to thank Mr. Campbell for his very concise and complete testimony, and look forward to working with him as we go further down the line.

I certainly think there are possibly some pitfalls in flexibility, but I think the overall, broad view is it is a far greater benefit to a farm bill and our farm producers than not to grant the flexibility.

And I think, if I read your testimony right, you see the ways that we can provide some flexibility. We need to be careful, as you point out, for the traditional nonprogram crop people, on one hand. However, it would seem to me that if we don't provide the benefits to the program crop person on those acres on which he doesn't grow a program crop, you level the playing field.

I think Mr. Huckaby made some good points that we don't want people switching into something that looks pretty beneficial today and find out that in 1 year or 2 we have all of a sudden put them in a situation of over-production again.

That market signal can sometimes be misleading. But, basically, I think, under the leadership of Mr. Stenholm and Mr. Roberts, we are heading down the right path. I certainly look forward to the testimony of the commodity groups, as well as the traditional farm groups, as to how they see this.

I think there is the possibility that this can be a very prime addition when we start to mark up the 1990 farm bill.

Thank you.

Mr. HUCKABY. I thank the gentleman.

Mr. Glickman.

Mr. GLICKMAN. Well, first, kind of a comment. No matter how we talk about this flexibility issue, it is all being talked about in connection with history. What a farmer can do today and tomorrow is based almost entirely on what he did yesterday. That is the whole concept of farm programs, so it locks in rigidity and it locks in inequities that just happen to be there.

Are we stuck with the history system? Regardless of what we do, are we stuck with what we did in the past or is there a way to get out of that problem?

Mr. CAMPBELL. No. I hope the testimony didn't leave that impression. What I tried to do was to explain that we have been in systems where history counted for nothing. In other words, the only thing that counted was this year, what you do this year, and payments were fixed no matter what you did.

That is something, of course, we could do again. We could basically fix the budget, if you will, and say what the payments are going to be and pay them regardless of what you do in the future. That is one way to go.

Another way to go is to do something along the lines of the triple base or something along the lines of the Stenholm-Roberts bill, and that is to, on the margin, make payments according to what you do currently, or to make no payments if you start switching around.

So we certainly want to get to a point where we take into account more about what the producer is doing today and less account of what he may have done last year or over a 5-year period.

Mr. GLICKMAN. Now, that gets me to another question, one Mr. Huckaby and I have talked about. Is the problem here not really with the flexibility of the base, but the fact that somehow we have got to realign target prices?

The relationship between how we compensate crops is out of line, so therefore we are trying to get at the problem through an indirect way, which is change the base. For example, the heart of the problem that has come to us so far is the fact that corn has a target price, soybeans doesn't have a target price. So, therefore, you are playing this game based upon crops being treated unevenly.

So we open up base flexibilities that encourage farmers to go between the crops. But, again, that is an indirect way to deal with the problem. The same thing is true with oats. You know, oats has a lower target price than comparable feed grains like barley. So then we have to mess around with base flexibility on that as well.

I guess one of the problems I have, and one of the concerns, is before we jump off on doing anything substantively on base flexibility, ought we not look at how target prices are computed?

For example, in addition to that, target prices on some crops relating to, let us say, cost inputs may be out of line with target prices on other crops, in which case you will always have a flexibility base problem because your crops aren't being treated similarly.

And then, of course, there is no way to work magic in this problem either. But isn't that as much a part of the problem?

Mr. CAMPBELL. That is certainly the problem with respect to the budget and, for instance, the Stenholm-Roberts bill or even using our discretionary authority. That certainly drives the expenditures because, again, as I said, producers will follow the most lucrative target price program.

But even if we were to come up with the ultimate formula to determine what is fair for every crop, it would only be accurate, if it were ever accurate, at that moment in time. We went through this exercise in the 1977 bill of trying to adjust these target prices, for instance, based on cost of production, and no one could agree what cost of production was and Congress threw the formula out in 1981.

So, really, as long as you have got a situation where the target prices drives the planting decision, you will always have problems in unfair advantage, one crop versus another. We can certainly make it better. We can eliminate it, to the extent we know the advantages that are inherent today. But, again, it is only good for today.

Mr. GLICKMAN. Just a couple of quick questions. Oats—what are we going to do about oats in the interim? I mean, we have a serious problem in importation of oats, a rapidly increasing commodity for both human and livestock use. It is an embarrassment that we are importing nearly half of our oats now. You know, it is hard to explain, with our productive capability.

What can we do in the short term with oats?

Mr. CAMPBELL. Well, we have done quite a lot, and really, despite what you may hear, when you look at the numbers I think the situation is improving with respect to our own production.

For example, this year oats participation in the farm program is expected to be basically nil; almost 5 percent is what our initial figures show. We can expect more oats as a result.

What Congress has done and what the administration has done is made it very easy, basically, to grow oats, with no annual limitation penalty. What we did, when we had differential ARP levels between oats and barley, is effectively increased the oats target price relative to the barley target price.

When you have that combined oats-barley base, it is great for flexibility. But, again, as long as the barley target price is way out of line with the oats target price, you are going to have a prejudice toward barley production.

But when you look at it over the last 2 or 3 years, I think we are making progress on the oats front. Some people have suggested splitting the base. I am hesitant to do that because I am afraid you will lock in a low oats base.

Some people have suggested raising the oats target price. Some people have suggested lowering the barley target price. But all in all, I think there is progress on that front.

The market price is driving oats production, which is what it should be doing, rather than the idea that the taxpayers ought to be responsible for generating a lot of oats. And if there is a fall in the market price, so what? We have got the cheap oats and the taxpayers pick up the difference.

Mr. GLICKMAN. Well, right now, people believe that oats help their blood vessels and, of course, that is what is driving increased

production. But what we have got to make sure of is there is the capability of getting those oats domestically.

I understand the quality of domestic oats is better, but we have only made incremental progress and that is something we have to keep looking at.

Let me just finally ask you two questions. No. 1, your opposition to the Stenholm-Roberts approach of increasing from 10 percent to 20 percent and mandating it in terms of crop base flexibility is budget-related, right? I mean, that is the heart of your opposition?

Mr. CAMPBELL. Yes.

Mr. GLICKMAN. You don't disagree necessarily with the goals.

Mr. CAMPBELL. Not at all.

Mr. GLICKMAN. It is just that it is going to cost the Government more money?

Mr. CAMPBELL. Right.

Mr. GLICKMAN. And, finally, on the triple-base option, two questions. One, will that increase the workload of the ASCS offices?

Mr. CAMPBELL. Yes.

Mr. GLICKMAN. And perhaps Mr. Stenholm may want to follow that up. That, I have heard from some of my ASCS people at home.

The second thing is will it, in effect, result in lower farm income for some producers tantamount to, in fact, a target price cut?

Mr. CAMPBELL. Yes.

Mr. GLICKMAN. OK. Thank you very much.

Mr. HUCKABY. Thank you.

The gentleman from Texas, Mr. Johnson.

Mr. JOHNSON. No questions.

Mr. HUCKABY. Mr. Emerson.

Mr. EMERSON. I have no questions at this time, Mr. Chairman.

Mr. HUCKABY. Mr. Tallon.

Mr. TALLON. I am going to pass at the present time.

Mr. HUCKABY. You yield your time to Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. Does it make sense to shift from one crop to another when Government costs will increase? Mr. Campbell, there can be ways to make it budget-neutral, if we should so choose, is that not correct?

Mr. CAMPBELL. Well, there are ways, yes.

Mr. STENHOLM. There are ways in which it can be accomplished. For example, shifting planting patterns in areas where skip row is followed by irrigation to dry land, and vice versa. A county ASCS committee can make a determination on individual farm bases in order to make various shifts budget-neutral.

Mr. CAMPBELL. I want to clarify. I am not sure that there are administrative ways to make it budget-neutral. That, I am not sure about.

Mr. STENHOLM. Well, if there is not, then that is where improvements can be made in the 1990 farm bill.

In regard to the so-called triple-base concept, we didn't comment on that earlier.

Let me take just a few minutes to explain that concept. It is true that it can effect farm income, no question about that. However, reducing target prices will reduce farm income. The reason we came up with the triple base approach is the belief that budget is

going to continue to have some effect on what this committee is able to do.

The flexible base is presented as an alternative for our committee to consider should it become necessary to make some changes.

In regard to budget costs, Mr. Campbell, is it not true that we can reduce the cost of our farm bill by increasing the loan rates under the current law?

Mr. CAMPBELL. Well, you would have to increase them an awful lot under the current conditions.

Mr. STENHOLM. For every penny that the loan goes up, does that not reduce the budget exposure under the 1985 farm bill?

Mr. CAMPBELL. Not under current conditions.

Mr. STENHOLM. Excuse me?

Mr. CAMPBELL. Not under current conditions.

Mr. STENHOLM. Well, under current conditions in which we make assumptions that the market is going to be over the loan, but in practical effect, for long-term budget effects, if we have a loan at 50 cents on cotton and a target price of 71 cents, is there not a possible budget exposure of 21 cents?

Mr. CAMPBELL. There is a possible budget exposure.

Mr. STENHOLM. And if we increase the loan by 1 cent, does that not reduce the possible budget exposure?

Mr. CAMPBELL. Yes.

Mr. STENHOLM. My point here, for the record, is that we have to consider those possibilities, and increasing the loan is a reasonable response, provided we do not increase the loan and do something to our market competitiveness, correct?

The reason we have pursued lowering the loan is the belief that we can become more competitive in the world market, and therefore sell more product, and eventually the farmer can make more money. However, that is dependent upon other governments also participating and playing by the same rules, is it not?

Mr. CAMPBELL. Well, we can force competitiveness by forcing the price differentials to the point where there isn't any choice on its part of other governments, which is what the 1985 bill has done, regardless of what the rest of the world does.

So I am not sure that farm income in this context is hooked to what other governments do. It is certainly hooked to how aggressive we are with respect to our pricing, and in countries where there are few government programs protecting agriculture—Australian cotton is a good example—producers respond.

Mr. STENHOLM. And I concur with that. I am just trying to point out some of the alternatives that will be available to this committee as we start developing the 1990 farm bill.

And I appreciate your supportive comments in your testimony on the triple-base proposal as a concept to be looked at.

Now, one of the alternatives is doing something with the loan that does not necessarily price ourselves out of the market so long as we have producers making market decisions to produce and there is no loan under that additional production.

If we have a greater volume of our crop being produced for the market with no loan, will we not be very competitive in the market under those conditions?

Mr. CAMPBELL. We have talked about this idea of whether or not, on the triple base, there ought to be loans made or not made. It makes a short-run difference in your expenditure for loans, but in the long run that production will still be supported by the loan rate regardless of if that actual bushel or bale or pound receives a loan.

That is because, historically, very little of the entire crop has been put under loan, but yet that loan rate has held the price at support levels. So it is not really a big issue whether that third base crop actually gets the loan. What is important is the loan rate on the entire crop.

Mr. STENHOLM. That is a debatable point. I could argue the other side of it, but not at this time. The final point I would make is in regard to the budget neutrality or the cost of farm programs. If we shift our payment method to pounds instead of acres we can have a better control on the budget cost.

If we go to pounds of support, does that not reduce the complexity of administering farm programs, and is it not possible to do?

Mr. CAMPBELL. If we switch from acres to pounds?

Mr. STENHOLM. Yes.

Mr. CAMPBELL. Well, actually, it would probably—under the old system where we did have marketing quotas and certificates, it was probably a little more complex because you always had variability in the yield. So in 1 year, you produced over your amount and you had to make provisions for what do you do with that.

You give them credit for it the next year. The next year, you might produce under. It is probably a wash as far as complexity. It is hard to say.

Mr. STENHOLM. Well, I have exceeded my 5 minutes. I am not talking in terms of strict quotas and mandatory allotments and mandatory payments, et cetera, in the triple-base proposal that we are discussing.

We are talking in terms of fine-tuning the 1985 farm bill to make it more market-oriented and recognizing budget pressures.

Mr. CAMPBELL. If you go by bushels and each producer has only a certain amount of bushels or pounds or bales that you are going to pay on, it is certainly a more certain calculation than if you go on acres times yield and you don't know what the yield is.

But remember that with respect to the target price payments, those program payment yields aren't really moving a whole lot anyway now. With respect to the amount that you are going to have a loan on, that moves quite considerably.

If I might, I would like to follow up on your one point about triple base, I have reviewed a lot of the testimony that is going to be given here this morning and you are not going to get a lot of support. But I think that that is natural, given an uncertain alternative environment.

In other words, if the choice is triple base or no change, producers will probably say no change. But if the choice is triple base or reduce the target price or reduce the payment limit or reduce the program payment yield, or any number of other ways that one can deal with the budget, I think then the majority of producers would say, well, I would rather have flexibility.

And in that context, I think you will get quite a different response than in the context of, well, triple base or "question mark."

Mr. STENHOLM. Well, Mr. Campbell, I fully recognize that we have opposition, but I am so appreciative that there is somebody out there that supports it. In 1985 when we proposed the same concept, nobody liked it but us. I happen to believe had we had that in the 1985 farm bill, we would be in better shape today. But I am the only one, I think, in the world that shares that belief today, and I recognize that.

Mr. HUCKABY. The gentleman from South Carolina.

Mr. TALLON. Thank you, Mr. Chairman, and if I could, I would like to ask my distinguished colleague, the gentleman from Texas, a question concerning the flexibility in the triple-base plan.

In the Southeast area of the country that I represent, there are quite a number of small row-crop farmers where program income has been relatively insignificant for years now. We plant a lot of pine trees and a lot of soybeans.

Should I be concerned about the flexibility that you are advocating now that finally, finally, soybean prices are looking a little better? These people who have traditionally grown soybeans year after year after year lose a little money, make a little money. It looks like there may be a better opportunity for them. Could they be negatively impacted?

Mr. STENHOLM. Could they be? I guess the answer would have to be yes. Will they be? There is no way to look into the crystal ball and be definitive. However, in soybeans, if we are going to utilize flexible base or triple base, soybeans have to receive some type of base.

Now, if soybean producers do not wish to participate in farm programs, as they did not in 1985—if that is the wish of the soybean industry, then we can forget flexible bases and all of these other concepts because it will not work.

Mr. TALLON. My concern is just simply the small producer who traditionally for years was producing soybeans—and, again, the program crops mean very little to him as far as overall income—how are we going to prospectively impact him by what we are doing if, in effect, traditional producers of base crops tend to move into that market when it is to their advantage to do so. I mean, you have to see where I am coming from.

Mr. STENHOLM. Yes, but here again, the soybean industry has been one of the leaders in saying to this committee we don't want target prices; we want market-clearing loans; we want the market to prevail.

What we are talking about in the flexible-base and triple-base concept is trying to enhance market reaction. So in that case, yes, there may be more soybeans produced. That may result in the lowering of the price, as it does any time you have too much of any commodity produced. However, it may also create enhanced market development and increase income.

Mr. TALLON. Well, certainly, the questions that I have posed have absolutely nothing to do with anybody in the soybean industry that I have discussed any of this with. It is just simply trying to look at it from the perspective of the small row-crop farmer in the Southeast and how they might be impacted, and I certainly want

to—I am interested in your proposal. I think it has great possibilities and is something we should look at and study.

Then, of course, the whole way through it I am going to try to determine how it would impact that small row-crop producer in my region. I thank you very much for your comments.

Mr. HUCKABY. Would the gentleman yield?

Mr. TALLON. Yes, I would be happy to.

Mr. HUCKABY. I thank the gentleman for yielding. It appears to me that with the triple base, the small row-crop farmer that you are concerned with, if he is not maxing out, if he is not receiving the \$50,000 payment, you are just going to cut his income 10 percent, or whatever the number is, whereas the big farmer, if it is a big west Texas farm or a big Louisiana rice farm, or what ever, if he is maxing out, he will never blink an eye. He won't feel anything, whereas this small farmer is going to take all the hit.

I yield to the gentleman from Texas—or the gentleman from the Department.

Mr. STENHOLM. Go ahead. [Laughter.]

Mr. CAMPBELL. Thanks a lot. Well, you know, there ought to be a way to deal with those concerns. The bigger concern is that farm income is being transferred to the Southern Hemisphere from America. You know, that is really what we need to think about. The inflexibility with respect to soybeans is transferring income from American farmers, in general, to South American farmers, and in the big picture that is, I think, where we are coming from.

Your concerns about the small guy are legitimate, and maybe there is a way to figure out how to help him through the transition.

Mr. HUCKABY. Mr. Smith.

Mr. SMITH. I thank you, Mr. Chairman. You know, this is a joyous occasion for me. In 1985, this committee was in desperate condition and shape, as were farmers in America, and we were looking at a bill to try to support agriculture at a time when it couldn't support itself.

Now, it is joyous to me because agriculture has responded and we are back making money again on the farm. Now, we are arguing about which commodity ought to be benefited over the other, which is joyous to me.

But, the gentleman from Texas—and I am preparing a question for you, Mr. Campbell—the gentleman from Texas ought to be congratulated because we are all going through this budgetary problem which, by the way, is a Government constriction of the agricultural program. It has nothing to do with agriculture.

The manner in which we budget here and how we balance it and what cuts we take and the manner in which we keep our books is our problem, and if we could change that, we wouldn't be going through the question that is posed by the gentleman from Texas of, for heaven's sake, raising the loan rate to meet our budget requirements, which nobody wants to do, but it is a suggestion that would fit in the bookkeeping area.

My friend was mentioning the question of crops in various areas that are only produced in those particular areas, and I happen to represent an area in the West where we only produce one crop. It

is not a historical problem we have in raising one crop versus the other.

The point is that in that country, we raise Soft White wheat in Oregon and Washington. We can't substitute anything. We aren't going to challenge anybody on soybeans or cotton or corn because we can't do it.

This kind of triple base, of course, would hurt us, would impact us, over another commodity. That is what I meant when I said we are now determining whether one commodity should be enhanced over another.

The question I have for you, and following, again, some of the people that have flexibility, what happens to the nonprogram crop folks who have gone through this whole situation, have never taken any money from the Federal Government? They are not subsidized in any way; they don't have a target and loan price. Yet, their commodities have revived through this whole 1985 farm bill and the response of agriculture in America.

What happens to them when we begin to provide incentives through a Federal bill for program crops that suddenly provides incentives for people to grow nonprogram crops?

Mr. CAMPBELL. That is really an excellent question, and it is one of the points that we said had to be addressed, the equitable treatment of program crops versus nonprogram crops. The key word—your key word is “incentives.”

Nonprogram crop folks can't have it both ways. In other words, if the argument is that they don't want subsidized competition, I think most people would agree with that notion. To the extent that you provide nonsubsidized competition, that is the way of the market.

In other words, if you were to make payments to people for growing asparagus, asparagus producers not getting a payment would probably have a legitimate complaint. To the extent that you tell producers, be they someone who happens to have a program crop or someone who doesn't have a program crop, that they are allowed to plant asparagus, that decision would be based on the market.

Now, that is kind of a short way of saying that you can't have it both ways with respect to nonprogram crops. If nonprogram crop producers are saying, well, we have got to keep this 350-some million acres locked into program crops regardless of the expense to those producers and to the national economy, then what we have, in effect, is a support system for those nonprogram crops.

There is no prohibition against any farmer in America planting nonprogram crops. They can do that now. The question is whether or not they are able to do it while getting out of program crop production—in other words, use that same acre that they used to receive a deficiency payment and a loan rate on.

If they are not receiving a deficiency payment or a loan rate, then we don't see any reason why they shouldn't be allowed to grow a nonprogram crop. In other words, there is no incentive on that acre. That decision to plant asparagus, or whatever else the nonprogram crop may be, is made on the market, not by a government incentive.

Mr. SMITH. Well, I hear you, but I think we get trapped in this question. If you want to be purist about it, we ought to just eliminate all subsidies or we ought to provide subsidies for everything.

I think the gentleman from Texas made the point on soybeans. If we did one or the other, we could then begin to treat the commodities more accurately than we are. As you well know, we subsidize some people in the wheat industry that raise livestock and put up hay. Those are two nonprogram crops. I object to that, but we do it, and we will continue to do it, I suppose.

But how do we get by the question to meet the budget? Do you have any suggestions other than those that you have discussed that we might meet this budget without pitting one crop or one region of the country against another region of the country?

Mr. CAMPBELL. You mean with respect to only looking at flexibility?

Mr. SMITH. Yes.

Mr. CAMPBELL. Well, if you restrict competition, which is what you are talking about by not allowing producers to do what they want to do, you are not going to achieve the budget savings.

In other words, if the exercise is a budget-saving exercise and you start putting walls around it, the budget savings won't be there. Likewise, if you want to do it—for instance, if you want to mandate a 10- or 20-percent crop acreage-base shift and you don't want it to cost much money, which it would under the current target price scheme, you again can start putting walls around it which basically say producers can't use the flexibility that you have given them. So, I don't know how you prevent competition and achieve the objective of flexibility.

Mr. SMITH. Well, after you go from a \$26 billion cost to an \$11 billion cost in the farm program and you get no credit for it, then you start suggesting that the people in the Northwest ought to make a contribution because they can only raise wheat. That is what bothers me. That is what I meant by constriction of our own problem.

That is our budget problem. That has nothing to do with how we grow crops in America or what crops we grow, does it?

Mr. CAMPBELL. Well, again, it is a matter of what are the alternatives for those producers.

Mr. SMITH. There aren't any.

Mr. CAMPBELL. With respect to their program crop, their wheat, I don't know that there are many better alternatives with respect to achieving the savings.

Mr. SMITH. Thank you.

Mr. HUCKABY. The gentleman from Texas can have the last word.

Mr. STENHOLM. I am sorry Mr. Tallon had to leave, but a further response to his question is what I hear us talking about when we say most farmers support the concept of the 1985 farm bill of turning more market-oriented, we have to recognize production efficiencies.

Whatever farm program we are talking about, efficiencies are rewarded. Now, if we want to deal separately with those that are less efficient, we can, and we do so, and we do this regularly on this committee. That is a separate argument that must be addressed,

and one, again, that can be addressed under the triple-base concept.

Mr. HUCKABY. Anyone else?

[No response.]

Mr. HUCKABY. Thank you, Mr. Campbell.

Mr. CAMPBELL. I appreciate the opportunity to appear.

Mr. HUCKABY. Our next panel is Dr. Martin Abel, with the firm of Abel, Daft and Earley here in Virginia; Dr. Ronald Knutson, Texas A&M; and Dr. Abner Womack, codirector of the center for national food and agricultural policy at the University of Missouri.

Gentlemen, we welcome each of you to the joint subcommittee hearings this morning. Dr. Abel, you may proceed.

STATEMENT OF MARTIN E. ABEL, PRESIDENT, ABEL, DAFT & EARLEY

Mr. ABEL. Thank you, Mr. Chairman. I appreciate the opportunity to discuss with you today how policies for price support crops might be modified to achieve greater planting and production flexibility and to make U.S. agriculture more responsive to market price signals and competitive forces operating in both the domestic and world markets.

Let me begin by reviewing experience under the 1985 act. That act deserves high marks for dealing with the very difficult situation that existed in American agriculture at the time that it was passed; namely, one of depressed farm income, a serious farm debt situation, sharply lower exports, and huge stocks of grain, soybeans, and cotton.

During the first few years of the act, all these negative features of the U.S. agricultural situation were turned around, and, I must say, in a very decisive way. The recovery of agriculture involved record expenditures on commodity programs, but that was anticipated when the act was passed.

The current legislation was designed to deal with the situation of large surpluses in a budget environment where large outlays on commodity programs were possible. But two things have changed.

First, world demand for grains, oilseeds, and cotton is now more robust, and large stocks, in the main, are no longer with us. In fact, we are now faced with the situation for some commodities of how the United States can produce enough to prevent the recent gains in exports from being eroded and how to reverse the declining U.S. share of world soybean and soybean product trade. Because of a shortage of wheat, U.S. exports in the current season are going to be down, as is the U.S. share of world trade.

Second, pressure to reduce the budget deficit has intensified and it is likely that outlays on commodity programs will have to be reduced further in the years ahead, although the size of these reductions is uncertain at this time.

The 1985 act is not well designed to meet growing world demand while at the same time reducing outlays on commodity programs. First, outlays are directly related to the level of allowable production. As a consequence, the lower acreage-idling requirements that are needed to raise output also increase deficiency payment exposure.

Second, the act, probably unintentionally, introduced some serious distortions among commodities in the relationship between target prices and production costs. As a result, farmers reduced plantings of some crops such as soybeans, barley, and oats in favor of the more generously supported crops.

These distortions are not eliminated by further cuts in target prices that are uniform across commodities unless they are so large as to make program participation unattractive. These aspects of current policy have been described in a report that our firm has issued.

That report also examined the implications for commodity program costs and production flexibility of three approaches to reducing budget exposure—further uniform reductions in target prices; realigning target prices to make them more uniformly proportional to production costs, but not tying target prices to these costs in the future; and a payment acre or triple-base approach, as some have called it, to limit deficiency payments to a portion of allowable planting.

The first option, further cuts in target prices, would reduce outlays but would not reduce distortions among commodities. It would not allow production to increase significantly because of the budget constraint, and would not increase production flexibility.

Realigning target prices would also save money, and it would provide more production flexibility than just lowering target prices, leading to some increase in plantings.

The third approach, payment acres or triple base, would move even further in allowing flexibility of production, while providing the opportunity to make needed savings in outlays on commodity programs. This approach retains all the familiar features of commodity policy and, in that sense, does not represent a radical departure from what we have had in the past.

It would work as follows. Base acreage would be retained for each program crop. USDA would set permitted plantings for each crop in terms of anticipated supply-demand conditions and competitive price objectives, continuing to use ARP's when needed.

Farmers would receive deficiency payments as a percent of either permitted or base acres. That percent could vary among crops, and farmers would be allowed to plant any program crop or other allowable crops on the difference between permitted and payment acres.

The advantages of the payment acre approach in a period of budget austerity are as follows.

The historic linkage between commodity program costs and permitted acres would be broken. In other words, the entitlement nature of price support programs would be restricted.

The ability to have payment acre percentages vary among crops could reduce, if not eliminate, existing distortions in target prices relative to production costs.

Market prices would drive planting decisions on the difference between payment and permitted acres, providing more flexibility to producers.

Farmers income would continue to be protected through deficiency payments on part of their production. They would gain certain other advantages as well, including fuller use of land resources,

achieving better balanced crop rotations, having the opportunity to trade off greater use of land for less use of fertilizer and pesticides, and be better able to increase returns from crops that have strong demand and price prospects. All of these cost or income advantages help provide an offset to lower Government outlays on deficiency payments.

Now, there are several aspects of the triple-base approach that still need to be analyzed before one can make a fully informed judgment about its desirability, and I would like to discuss some of those.

One involves the extent to which income gains from larger plantings of program and other allowable crops offsets declines in deficiency payments mandated by budget considerations. Related to this point is the understandable fear of some producers that this approach will result in overexpanding production and depressing price of nonprogram crops.

The adverse impact on non-program crops could be limited in several ways. First, it is envisioned, at least by me, that the Secretary would set production goals for program crops consistent with desired supply-demand conditions, the same approach that has been used in the past, and ARPs would continue to be used where appropriate. This limits the amount of extra production that would be allowed.

Second, the Secretary could have the authority, as he now has to some extent, to limit which crops would be planted on the difference between allowable and payment acres, and this authority could direct him to avoid disrupting markets for non-program crops.

Third, the payment acre or triple-base approach could be phased in gradually, and this would help avoid serious production problems among crops as one gained experience with this approach.

I would like to point out that other approaches to save money on commodity programs and expanding output might also be disruptive to nonprogram crops. For example, if the recent policies of reduction in target prices were continued, at some point program participation rates would fall. As more farmers stayed out of these programs, they would be free to plant any crop they wanted, including nonprogram crops.

A second feature of payment acres or triple base that needs further analysis is the extent to which it reduces average per-unit cost. Cost savings could arise from a combination of using land and machinery more fully and from having more production flexibility that allowed farmers to follow better crop rotations.

There have been reports, for example, that the restrictions current policy places on soybean production have moved farmers away from desired corn-soybean rotations, and that this has reduced yield and required the added use of some inputs, both of which have raised unit costs. To the extent this is true, policies that allowed producers to follow more desirable rotations would reduce unit costs.

Finally, policies that allowed greater production flexibility could have beneficial environmental effects, and these, too, need to be examined. Improved crop rotations could reduce soil erosion, a significant problem in some areas. Furthermore, they could result in less

ground water pollution if they decreased the need for pesticides and nitrogen fertilizer use as a result of a higher proportion of acreage being planted to leguminous crops, such as soybeans, to hay and pasture, and to other crops that do not require as much nitrogen per acre as current cropping patterns.

These are some areas where I think some further analysis is needed to see what the implications are and to try to quantify them as best as possible. That concludes my formal statement, Mr. Chairman.

[The prepared statement of Mr. Abel appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Dr. Abel.

Dr. Knutson.

STATEMENT OF RONALD D. KNUTSON, AGRICULTURAL ECONOMIST, AGRICULTURAL AND FOOD POLICY CENTER, DEPARTMENT OF AGRICULTURAL ECONOMICS, TEXAS A&M UNIVERSITY

Mr. KNUTSON. I want to summarize my statement, and wish that the entire text be placed in the record.

Mr. HUCKABY. It will be.

Mr. KNUTSON. In fact, I want to turn to the charts at the end of my testimony and go through those charts individually to indicate the significance of them.

As Congressman Glickman indicated, the initial key issue in evaluating the flexible base proposal involves the current distribution of farm program benefits in terms of target prices and loan rates.

In the first five of my figures, I have presented the results of our analysis of relative program benefits across commodities and over time. Where the time period extends beyond the 1985 farm bill into the 1990's, I have relied upon the estimates of FAPRI in terms of costs of production.

What you will notice from figure 1 is that all of these figures have the relative benefits on the vertical axis, which is basically the target price divided by the cost. What figure 1 indicates, where you compare the target price with the variable costs, is that the wheat target price tends to be high relative to variable costs in recent years, and that extends out to 1994, assuming a frozen level of target price at the 1989 level. Rice, on the other hand, tends to be low, with corn and cotton being in between wheat and rice. Actually, all four are relatively close together.

In Figure 2, what we have done is we have taken the target price and adjusted it into what we refer to as an effective target price, which considers the difference in set-aside level, or ARP's, across commodities.

Obviously, a commodity like rice, which has a higher ARP, has a lower effective target price because you don't receive deficiency payments on the ARP acres. So what happens when the target price is adjusted for ARP, you will notice, is that the effective wheat target price, relative to variable cost still ends up being a little bit higher. Rice ends up being substantially lower because of

its high ARP, and the corn and cotton end up in between wheat and rice.

Of course, I contend that variable costs are more important than total economic costs because what counts in today's economy is whether a farmer can cashflow. When you are dealing with a safety net policy, that is the critical issue.

There have been a number of comparisons with total economic costs. Figures 3 and 4 make our comparisons. Specifically, figure 3 shows the target price relative to total economic costs without considering the difference in ARP. Here, rice, as has been observed by some people, ends up on the high side. All of the other commodities, you will note, are right together in terms of the target price relative to total economic costs.

If you consider the differences in the ARP's across commodities, the general distribution of target price relative to total cost ends up being quite a bit closer. Rice is still a little bit high and wheat is a little bit low and corn and cotton dead-center between once again.

The conclusion that I draw from this comparison is that there is no commodity that is consistently out of line when you compare the target price with the costs, regardless of whether you look at total economic costs or variable costs. It seems to me this speaks pretty well for the performance of the political process in the setting of the target prices.

There has been some discussion of the relationship of loan rates to costs, specifically as it relates to soybeans. Figure 5 does a very good job of illustrating the problem, it seems to me, in the case of soybeans.

You have got a case where soybeans relies on the loan rate for both price and income support. You can see very clearly in a comparison of the loan rate with the variable costs that the soybean loan rate is very high relative to the other commodities. In fact, it is so high that in about an 18-month period, as you well know, soybeans were priced out of the world market. There is obviously a problem in that particular situation.

We also did an analysis of the impact of the triple base or flexible base program on our typical Texas farms. Figures 6 and 7 indicate the results of that analysis for 2 of 6 typical farms.

Specifically, I have taken a coastal bend farm, which is a cotton and sorghum farm, with four different scenarios: First, the current base program; the second one, a situation where the farmer simply lets the 20-percent flexible-base land remain idle; the third case where they plant the same crops that they have been planting in the past; and the fourth case where they plant those crops to the same crops, but the most profitable of the same crops.

You will notice in figure 6—the probability of earning a 5-percent return is 82 percent for that typical coastal bend farm under the current program.

Under maintaining the land idle, the probability of earning a 5-percent return is 21 percent—in other words, a very marked drop if the farmer maintains the land idle. One would conclude that most farmers would not maintain the flexible-base land idle.

The probability of earning a 5-percent return increases to 62 percent if the same crops are grown, and the probability increases to

67 percent under a planting of the most profitable combination of those crops.

Mr. HUCKABY. Could I interrupt you there?

Mr. KNUTSON. Yes.

Mr. HUCKABY. We are trying to follow you here. You are saying that the probability is 21 percent that I will have a 5-percent return on my investment if all of my land is idle?

Mr. KNUTSON. No. If those 20-percent flexible-base acres are just idled by the farmer.

Mr. HUCKABY. The 20-percent?

Mr. KNUTSON. Yes.

Mr. HUCKABY. And then your next bar chart—

Mr. KNUTSON. Is the same combination of crops. In other words, he continues to plant the same combination of crops, but he does not receive payments on the 20 percent.

Mr. HUCKABY. So he is just receiving less?

Mr. KNUTSON. Exactly, exactly, and then the last situation is where he plants the optimal combination of those crops. In other words, he can increase his chances of earning returns a little bit from the optimal combination.

Figure 7 gives the same types of analysis for the northern High Plains farms. Congressman Glickman, this would probably be roughly equivalent to the western Kansas, western Oklahoma situation. You will notice that this farm is not doing well even currently. In fact, it has a negative cashflow currently, a 38-percent chance of earning a 5-percent return. If he maintains 20 percent of the land idle, it falls to a 2-percent chance of earning a 5-percent return, practically no chance; if he plants the same combination of crops, a 22-percent chance of earning a 5-percent return, and a 34-percent chance with the optimum combination of commodities.

I might add that that 34 percent means that he is going to be producing all wheat on that particular farm, whereas he produced a significant amount of sorghum previously. So that indicates there is some shift that occurs among crops planted.

Of the six typical farms that we analyzed, there is only one of them that came close to generating the same level of returns. That was a blacklands farm which had a multiple-cropping pattern. It had three different cropping options—cotton, sorghum and wheat—and it came close to generating the same return as under the current program.

That basically ends my summary and my comments.

[The prepared statement of Mr. Knutson appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Knutson. Mr. Womack.

STATEMENT OF ABNER W. WOMACK, CODIRECTOR, CENTER FOR NATIONAL FOOD AND AGRICULTURAL POLICY, DEPARTMENT OF AGRICULTURAL ECONOMICS, UNIVERSITY OF MISSOURI-COLUMBIA

Mr. WOMACK. Thank you, Mr. Chairman, and chairmen of the subcommittees and members of the committee. I appreciate the opportunity to appear before you in this hearing on planting flexibility. My comments are based on a recent evaluation of flexibility by

the Food and Ag Policy Research Institute at the University of Missouri and Iowa State University.

This option is a modification of the Food Security Act of 1985, with less overall Government support, typically described as the triple base option. This modification and my comments are contrasted with the continuation of the current farm bill.

To give you some notion of what this triple base option means, it would be a modification in the following areas. In 1990, for example, with a 5-percent ARP and a 95-percent paid program, this would transform into a 5-percent acreage reduction program with 76 acres out of 100 supported at full target price and with 29 acres out of 100 being flexible, so an 80-percent across-the-board support relative to the current farm program that we have.

Some general observations relative to what might occur if we stay with the same farm bill that we currently have, the Food Security Act of 1985: We find that there is about a one-for-one trade-off between net returns and Government costs over a 4-year period. Net returns averaged about \$1.7 billion less, at a savings of about \$1.6 billion a year.

Corn net returns are most heavily impacted, followed by wheat, soybeans, and cotton. This is a major point of concern, since net returns on all major crops are on a downward spiral even if we consider frozen target prices 1990 forward.

This strategy will likely tip the scales further. For example, current projections place corn returns dropping from around \$163 an acre over variable cost for program participants in 1986-87, to around \$125 an acre in 1992-93. When that number drops below \$120, it knocks out production of corn in Missouri on 80- to 90-bushel corn land.

This option that we have considered on the triple base would pull about \$10 an acre more off of the returns, and for cotton it probably would pull around \$16 an acre off of returns, where we have seen our decline in cotton returns projected to move from around \$173 an acre in 1986 to around \$150 by 1992, again assuming that we have flat target prices, but that we have about a 4- to 5-percent increase year over year in the rate of inflation.

We may find in this case, and also with the Food Security Act, that we get strong regional implications. Most likely outside the Corn Belt, net returns on 80-bushel corn land would drop below levels to sustain production, and certainly have to shift in other directions.

Planted area for all crops may decline. Program participation would be lower. We are estimating that total area planted would be lower, but soybean acreage would be up about 700,000 acres, which is something that would be desirable. But in the following years of our analysis, with the higher acreage, we find that soybean prices decline and therefore acreage declines.

The baseline estimates indicate relatively low market prices over the next few years with average weather and low set-aside programs. This means that producers will still be very dependent on Government support to maintain net farm income.

The flexible-base strategy offers the option of following market signals, but market opportunities may not be as good unless we

begin to experience shortages. In other words, our market prices are floating at fairly low levels.

This strategy does not seem to solve the soybean dilemma, as it has been evaluated. Most of the area lost was recovered in higher soybean acreage in the first year, but higher acreage means lower market prices, and eventually lower acreage in the following years.

Flexibility is certainly desirable. However, the economics of the situation are strongly conditioned by Government programs. Lower market prices and target prices still remain the dominant factor in the farmer's production decision.

It very likely means that a flexible option will not recover soybean acreage unless program compatibility is considered, as has already been mentioned. The current soybean loan rate is out of line with feed grains. If it is lowered, additional support would be necessary to prevent further acreage decline.

With expected prices in our baseline at or near \$6 a bushel through 1992, acreage is likely to hold, according to our estimates, at around 60 million acres. If we desire to have acreage in the mid-60 level, it will take a price in the \$6.50 range to do that.

Previous analysis by FAPRI also suggests that the PIK strategy has complicated the situation for minor grains, sorghum, oats, and barley, as well as soybeans. Excessively low market prices of corn and wheat pulled all market prices down. Low return on soybeans without target price protection has contributed to the considerable decline in soybean acreage.

Minor grains were influenced similarly. Stocks of minor grains were depleted before corn and wheat, but with market prices low, no incentive exists to produce outside program bases. This eventually helped create a shortage situation in the minor grains. Market prices rise artificially higher pulling in more acres, which quickly drops prices and refills stock positions. The longer run becomes a rather jagged production response.

So, in conclusion, flexibility certainly seems to be a desirable direction, but this triple-base strategy that we considered saves on the cost side but pulls heavily from the net farm income side, and this strategy is about equivalent to a 5-percent target price reduction year over year.

The current track of the Food Security Act of 1985, even with frozen target prices, implies declining returns per acre. This may imply that we need to examine broader support at or near the 1985 farm level, but allow total flexibility and reconsider supports across commodities from the equitability standpoint, especially in the areas of minor grains and soybeans.

I might ask you to look at one chart for corn just to get a picture of the direction that our baseline tends to indicate and one of the problems that we may run into in the 1990's.

The U.S. corn producer net return chart, the first chart, indicates the net returns over variable costs year by year, and the black area would be farmers that are in the program and the lighter areas, farmers outside the program. You notice that that moves down continuously, and by 1992 we are at or near \$120 an acre. And the average for the last 5 years, we are down to \$114 an acre.

When that number drops below \$120, that really moves an awful lot of marginal land that we have in Missouri out of production.

Should we consider the triple base option as we have evaluated here, it simply will pull these supports somewhat lower.

[The prepared statement of Mr. Womack appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Dr. Womack. I find your presentation very graphic and very concise. It appears to me that there are significant differences between the Abel study that was alluded to on cost of production and Dr. Knutson's relative benefits study here and, Dr. Womack, your analysis of the benefits of target price and what we are doing here.

I guess rice is probably the most dramatic of the three. Just comparing, it appears to me you are saying that in 1989, if a rice farmer was out of the program, his net returns—I assume we define net returns as profit that is over and above fixed cost plus variable cost?

Mr. WOMACK. This is over variable cost. In our estimates, the rice variable cost in 1986 was about \$280 an acre. We are projecting it at about \$360 by 1992, moving up about 4 percent a year.

Mr. HUCKABY. So that is like, what, \$160 per acre, something like that it looks like, of what the target price is worth to you for a rice farmer?

Mr. WOMACK. That is correct.

Mr. HUCKABY. Which is significant.

Mr. WOMACK. It is enough to keep the program participation very high.

Mr. HUCKABY. Dr. Knutson, you say there is relatively little difference between the four in the target price to total economic cost, but you use a scale that says relative benefits, and I don't really understand what relative benefits are, the difference between 1.4 for wheat, say, and 1.6, it appears, for rice. How do I relate that to dollars or return on investment?

Mr. KNUTSON. Which figure are you looking at there?

Mr. HUCKABY. I am looking at your figure 3 relative to total economic cost.

Mr. KNUTSON. What we have done here is we have taken the target price per hundredweight for rice and divided it by the USDA estimate of total economic costs on a yearly basis. So if you have got a ratio of 1, then you would say they are equal.

Now, I must say that I am not arguing that USDA estimates of costs here are right on the money. What I am saying is that the trend is more important in this case than the level—we find in Texas higher costs than are estimated by USDA.

But we find that, over time, the USDA estimate tracks fairly closely with what we estimate.

So I think the important point here is that when one looks at total costs, you have got to look at it in a time dimension. And what you find here in terms of total economic costs is that the target price relative to total economic costs is higher for rice.

As I said, I think the more important issue from the farm program standpoint is how rice is cash flowing, as indicated by the variable costs or the out-of-pocket costs, since we are dealing with a safety net type of policy here. And if you look at cash-flow back on figure 1, what you find out is that rice is low relative to the other commodities.

Mr. HUCKABY. May I ask why you are more concerned with variable costs instead of total costs, because don't you consider land costs? That is a fixed cost that is not a variable cost.

Mr. KNUTSON. It is a fixed cost, yes.

Mr. HUCKABY. It is a fixed cost.

Mr. KNUTSON. Yes.

Mr. HUCKABY. And most farmers in America have to make that fixed-cost payment every year. That is No. 1.

Mr. KNUTSON. The payment on mortgage, the interest costs, and those types of costs are included in here in the variable cost. So, you know, those kinds of costs, meeting the debt payment, are included in the variable cost. That is a part of cash flowing, and that is why I say, from the standpoint of the farm program whether the farmer is cash flowing is a really critical issue in evaluating—

Mr. HUCKABY. We are both economists, and one can look at different aspects to get what one wants.

Mr. KNUTSON. Oh, sure.

Mr. HUCKABY. Net return, return on investment, is probably what everyone could agree to you could use as a common variable to evaluate any investment opportunity.

Mr. KNUTSON. Right.

Mr. HUCKABY. Dr. Womack's information gives us that type of an analysis of net return. Would you agree that this is not return on equity, return on investment, that we are talking about here, Doctor?

Mr. KNUTSON. Exactly. I agree with that, and I would like to have a typical farm analysis for rice, but our typical rice farm is not quite up and running yet. It is in the process of being made up, but it is not quite up and running.

Mr. HUCKABY. All right.

Mr. KNUTSON. As soon as we get it up and running, we will give you the results in that particular case.

Mr. HUCKABY. Certainly, those of us who are looking short term have to come up with \$600 million in real-dollar savings. We are looking at the next farm bill, the purpose of these hearings, and I certainly think that everyone here wants to be fair, wants to do what is best for American agriculture to improve the lives of everyone who is involved in agriculture in any way. That is what we are all struggling to do, and to get correct data and meaningful data, data that we can compare, and then have our discussions and arrive at our conclusions.

That is certainly what we want to do, and we certainly appreciate the information that you all have provided us along these lines.

I yield to the gentleman from Kansas.

Mr. GLICKMAN. Thank you. Mr. Chairman, one thing I might mention that we talked about before, the drought bill is going to be up today at about—I am going to guess about 1:30 p.m. So we may have to run through the last couple panels fairly quickly, or else recess when we get to that. I don't know exactly what time, but my guess is about 1:30 or 1:45 before we will get to it.

Let me just—first of all, all your testimony is excellent. Dr. Abel, I want to tell you that even though I have had some reservations about this triple base approach, I think that your comments about input cost effect is something that really ought to be explored more

because it is something that if we could quantify to show savings, both direct cost savings as well as indirect savings, it could have some impact in terms of how I view this situation as well.

Do you have any data to buttress some of your anecdotal evidence about cost reductions and savings?

Mr. ABEL. No. I was raising these as questions that I think should be analyzed, and USDA can do it, or others. I think they ought to be looked at, as should some of the other points.

Mr. GLICKMAN. Dr. Womack, in your studies in terms of dealing with base flexibility, have you been able to compute savings enhancements as a result of base flexibility?

Mr. WOMACK. Only to the extent that we have transferred one kind of crop to another. In other words, we have gotten a better rotation out of it because we did get more soybean acreage.

Mr. GLICKMAN. Do you think there is additional work to be done in this area, or do you think we are talking about something that is not going to have much impact?

Mr. WOMACK. I think it certainly would be a part of it because better rotation would certainly imply a different set of input combinations. So I would agree that there is something to be gained by looking at that.

Mr. GLICKMAN. Now, I want to go back to this relationship between target price economic benefits and base changes. I mean, it just seems to me that if we are going down the road of making the fundamental changes in the way we compute bases and yields—and I think we are going to have to go down that road—and don't analyze the method by which we compute target prices, we are not going to be doing ourselves any good at all.

I mean, it is like we get ourselves locked into a proposal without figuring out whether it makes any sense. I gather that you would tend to agree with me that one cannot and should not look at the whole issue of base changes, whether it is going to a mandatory certain percentage flexibility or going to a triple base, without also examining simultaneously the methodology on which we compute loan rates and target prices.

Is that a fair analysis by all of you? I see nods of heads.

Mr. KNUTSON. Yes.

Mr. GLICKMAN. Dr. Womack.

Mr. WOMACK. I think that the issues that have been raised are right on target. The issue of flexibility, whether we have got it nailed down to the exact number, is one that we really should look at. And the second part, it seems to me, equitability across commodities, has to be reconsidered or else we are not likely to get into the solution of the soybean problem.

Mr. GLICKMAN. Yes. I think you make that point in your statement that you won't, in fact, see any additional soybean planting, in which case we are not going to have any net effect on the South American situation, which, as I think Mr. Campbell talked about before, one of the reasons why we are dealing all this.

As usual, I think all of you have performed an excellent service here. I don't know whether we are going to deal with this issue in the reconciliation process or not. I hope not, but it may be unavoidable, because I think it creates additional confusion out there on a 1-year proposition that is going to—I will get my head cut off if I

go home and tell them that we are going to change the way that we are going to compute their base for 1 year only until we come up with next year's farm bill. They will look at me like I am crazier than they already think I am anyway.

But I don't want to be locked in against this proposal on base flexibility because I think we are going to end up with something along these lines in next year's farm bill.

Yes, Dr. Abel.

Mr. ABEL. I would like to make one additional point. So far, a lot of the discussion on flexibility is keeping some ARP's in place, or assuming some ARP's in place, and then moving acreage around within those ARP's.

There is another very important dimension to the triple base or base flexibility option, and that is being able to respond to strong world demand by increasing production, lowering the ARP's without inflating the budget costs; similarly, when demand is weak, to be able to cut back on production and increase the ARP's.

I think our own analysis tried to deal with this to some extent, but I think one wants to look at that aspect of it.

Mr. GLICKMAN. That is true, though, as long as the program payments are as neutral as possible between the commodities.

Mr. ABEL. Yes, but this aspect of flexibility is important—in other words, how do we get enough wheat produced so that our foreign competitors don't take the market over again, while at the same time retaining provisions not to overproduce.

Mr. GLICKMAN. Thank you, Mr. Chairman.

Mr. HUCKABY. The gentleman from Florida.

Mr. LEWIS. I don't have any questions, Mr. Chairman.

Mr. HUCKABY. The gentleman from Texas.

Mr. STENHOLM. I, too, commend all three of you for your excellent analysis. I find nothing in any of your papers that I, in my own mind, would question.

Dr. Abel, I commend your paper, in particular, for explaining the triple base in depth in language that is very clear. The questions that you raised are those that have to be answered, obviously. You have done a very good job of outlining what I believe to be the triple-base approach, pros and cons, and the alternatives.

And I guess since we are only looking at flexibility in triple base, it is extremely important that we keep the two separated because flexibility of planting and triple base are two separate proposals, one of which, as you all have pointed out, is budget-driven.

It is focusing the discussion and the debate of an alternative way, of which there are many alternative ways at getting to the same conclusion. You know, it bothers me, Dr. Knutson, when you show that in a good part of Texas, even when we keep the base, the reasonable chance of getting a 5-percent return on investment is only 38 percent. And that is assuming that we can freeze the target, freeze the loan, and freeze the costs for 5 years based on the 1990 program.

Mr. KNUTSON. And it supports what Dr. Womack said about the danger of cutting the level of program benefits at this point in time, for fear of throwing agriculture into another recessionary farm crisis situation.

Mr. STENHOLM. If you cut the target price, you reduce farm income dollar for dollar. Unfortunately, the flexible base can do exactly the same thing or, if there is a market there, can, in fact, be a little bit better.

Your analysis indicates that on the High Plains farm, it is within a 4-percent chance of where the base is.

Mr. KNUTSON. Yes.

Mr. STENHOLM. That is where we have come from in saying take a look at this as an alternative. If we take those who believe that the free market is going to solve everything that ails us and all we have got to do is get rid of all of our controls and everybody is going to prosper, then you could put another chart in there and raise it above 50 percent. But I think we would be very foolish if we were to do that, right?

Mr. KNUTSON. That is right, yes.

Mr. STENHOLM. Dr. Womack, you indicated in your testimony that increasing production decreases price, and this is one of those fine lines of balance that we have tried to strike between the 1985 farm bill and where we want to go in the 1990's—the pursuit of the market, but at what cost.

That is where I repeat again, raising the loan rate within the flexible-base concept is not nearly as negative as many of my colleagues have taken it to be.

Now, if you eliminate the flexibility, then it is extremely negative toward producer income. From a budget perspective, it is one of the alternatives that this committee is going to have to discuss.

Dr. Womack, a comment on that?

Mr. WOMACK. Well, in looking at the flexible-base issue as the total issue, I think we need some leadership from the committee, and we stand ready to evaluate different options, as you know. But we do need some direction from the committee and from staff on options that you might like to have evaluated so that we really could compare them.

It is beginning to sound like one option that has been considered today with regard to flexibility is the modification of the Food Security Act as it stands with total flexibility across the bases and what might then happen to acreage.

And if we were to find that there was a problem with acreage stacking up too much in one area as opposed to another, then perhaps we could do what Dr. Knutson and Dr. Abel are suggesting and consider ways that you might, across the board, reduce the benefits if you begin to see things move out of line, but to start from the premise of a total flexible base, then look to see if there are problems with acreages, and if there are, then look to see what might be done either on the loan side or in other areas.

So I think involvement with the committee and with your staff would be very helpful in helping us iterate toward a set of options that might be considered before we make more runs, but we would certainly be willing to do that.

Mr. STENHOLM. My time has expired. Again, I commend you for your analysis and it is very helpful. Dr. Womack, your challenge to us now on the committee to start looking at some of these alternatives and then asking for some additional analysis is a point well made, and we certainly will be looking at that.

Mr. HUCKABY. Do any other members have questions of these witnesses?

[No response.]

Mr. HUCKABY. If not, we will excuse this panel.

The subcommittees will stand adjourned for approximately 10 minutes. We are going to vote and return.

[Recess taken.]

Mr. HUCKABY. The subcommittees will please come to order. We would like to continue our hearing. It is my understanding that some of the other members will be returning shortly. As you are aware, we have the drought bill on the floor of the House this afternoon, and hence we have decided that we would like to proceed at this time.

Our next witnesses are a very distinguished panel from throughout the various segments of agriculture. If you please would come forward—I see everyone is here, I believe—Mr. Schwensen, Mr. Heiden, Mr. Wentworth, Mr. Denison, Mr. Yoder, and Mr. Anderson. We welcome each of you to the committee and look forward to your testimony.

I think the hearings that we had this morning were extraordinarily beneficial, very good information, very clear, concise information, and very thorough discussions. And, certainly, we look forward to hearing your input, perhaps the most important input, in fact. You represent the commodities, the players themselves.

With that, I would like to yield to the gentleman from Florida, Mr. Lewis.

Mr. LEWIS. Thank you, Mr. Chairman. I would like to take this opportunity to introduce my good friend, Steve Yoder, from Calhoun County, Florida. Steve runs a diversified farming operation that includes dairy and beef cattle, as well as a multifaceted row crop operation consisting of soybeans, peanuts, wheat, corn, sorghum, and oats.

He is the former president of the Florida Soybean Association, and director of the American Soybean Development Foundation. Steve currently serves on the American soybean's 1990 farm task force, and I believe that Steve's varied experience in both crop production and commodities will provide valuable testimony to apply to the crop and farm base provisions of the 1990 farm bill, Mr. Chairman.

I have had the good fortune to know Steve for the past 4 years, and I consider him a good friend and a most valued expert in this Nation's farm programs. It is a pleasure to have him here today and to introduce him to you, and I would like to welcome Steve to Washington and this subcommittee.

Mr. HUCKABY. Thank you, Mr. Lewis. I would be remiss if I didn't say a word about my good friend, Mr. John Denison, who is representing the U.S. Rice Producers, who is from Louisiana. He is certainly no stranger here. He has been active in the American Farm Bureau for many, many years. And, John, we are certainly glad to have you here, and look forward to your valuable insight and testimony.

Gentlemen, if we might proceed, might we perhaps just go down the row if that would be all right?

STATEMENT OF W. BRUCE HEIDEN, PRESIDENT, NATIONAL
COTTON COUNCIL

Mr. HEIDEN. Thank you, Mr. Chairman. My name is Bruce Heiden and I am a cotton producer from Buckeye, Arizona, and I serve as this year's president of the National Cotton Council, in whose behalf I am testifying today.

The council is the central organization of the American cotton industry representing producers, ginner, seed crushers, cooperatives, warehousemen, merchants, and textile manufacturers.

We appreciate the opportunity to present the views of the council on the crop and farm acreage base provisions of the 1985 Food Security Act. The producer steering committee, which represents the producer segment of our industry within the council, recently held meetings across the Cotton Belt seeking input from leadership on the cotton farm program.

The subject of planting flexibility was discussed in detail, including crop base provisions of the current act, as well as more recent proposals such as triple base and soybean-oats production substitution on program crop acreage.

The council board of directors at its recent board meeting in Washington, DC, adopted the producer steering committee recommendations in this area for new legislation. The Council recommends that current authority for planting flexibility be continued in new legislation; that is, that the Secretary continue to be given authority to allow producers to transfer up to 10 percent of the farm acreage base between individual crop bases.

We realize that the Secretary has not used this authority to date, and all indications are that he will not do so for the remainder of this act. USDA has earlier estimated that implementing the adjustment in crop acreage bases could increase CCC loans by \$200 to \$300 million, which probably explains the Secretary's action.

A change from the current recommendations, recommended by the Council, is to restore producers ability to certify zero planted acreage of a program crop and have authority to plant other crops in its place. This would allow a producer to plant an alternate crop without program benefits and protect his historical program crop base.

This proposal is particularly important in the western cotton production areas where annual water availability may be a problem, and also where alternative cash crops are viable. We view this as a positive change, as it would keep a producer from planting a program crop merely to protect his base when economics would dictate production of other crops. This provision should also reduce program cost outlays.

Aside from this recommended change, the provisions of the 1985 Food Security Act afford sufficient planting flexibility. Producers now have the ability to comply with program provisions on one farm, with complete freedom to plant program crops without restriction and without program benefits on another farm.

Furthermore, the elimination of limited cross-compliance would increase the ability for flexibility without any new major program changes. With the voluntary nature of our current program, pro-

ducers are free to plant whatever crops they feel can be sold at adequate market prices outside any Government program.

We are concerned that expansion of the current base transfer authority—or other new provisions such as triple base or normal crop acreage—would provide an artificial incentive to attract excess acreage to cotton. This danger is magnified by the fact that national cotton base acreage is small relative to base acreages for wheat and feed grains.

In 1988, the national wheat acreage base was 91.8 million acres, while the acreage base for feed grains—corn, grain sorghum, barley, and oats—was 121 million acres. This compares to a national upland cotton base of 14.5 million acres in 1988. Therefore, even a small percentage shift out of wheat or feed grains to cotton would have a big impact on cotton acreage. Any substantial change has short-term supply implications and long-term base expansion, necessitating larger acreage reductions.

The U.S. cotton industry is currently working itself out of a large carryover stock situation based on current acreage and production. While we have confidence that the current cotton program will provide us the means to increase sales of U.S. cotton, both domestically and abroad, and therefore, allow us to expand production in future years, the expansion should be demand-driven and not as a result of a program change.

Basically, cotton producers do not view expanded planting flexibility as a necessary farm program provision for their operation. For most of our producers, cotton is the commodity of choice. It is being produced on the most productive soils on a farming operation. We believe, therefore, that expanded planting flexibility risks enticing nontraditional producers of cotton into the program without the proper signal from the marketplace.

Current cotton producers, on the other hand, are generally not interested in altering their cotton cropping patterns. Therefore, additional flexibility does not have much appeal.

According to a 5-year average of USDA data on per-acre returns above total cash cost of production, cotton yielded the highest, or near the highest, in all cotton-producing areas in this country when compared with other program commodities. These statistics excluded direct Government payments. Total or expanded base transfers, because of cotton's comparative position, could stimulate excessive production.

The council maintains that the method of base determination in the current act for cotton is adequate to allow for an orderly expansion of cotton production when market signals warrant. This is evidenced by the fact that farms growing upland cotton, according to ASCS, are estimated to have risen from 143,000 in 1988 to 145,000 in 1989.

We recognize that as the budget negotiations continue, it may be necessary to reduce the cost of the cotton program. If this becomes necessary, we might want to consider a triple base approach in light of other options as a cost reduction alternative.

Some aspects of this approach that should be addressed, if implemented, are the potential for loan limitations, the added complexity of dual sign-ups, one for intentions and one for final, and the need for broad discretionary authority by the Secretary.

The council opposes the normal crop acreage concept, which represents a major change in the crop acreage base provision of the current act. This approach was tried in farm programs during the 1970's and proved unsuccessful. It was eventually changed to the current crop-specific programs in 1978.

Under the NCA approach, an acreage reduction could be announced for cotton. Yet, the actual production on the farm base for that year could, in fact, increase. This occurred when NCA was last used for cotton.

The current individual crop acreage base approach, when administered properly by using acreage reduction programs, is a much more effective supply management program.

The council does not oppose the Secretary's current authority to allow the planting of soybeans or sunflowers on permitted program crop acreage for 1990. If producers of these commodities favor such provisions in order to enhance production, we have no objection. However, we would oppose expansion of this authority to cotton.

In closing, I would again state that the council favors the current authority for crop and farm acreage base provisions, along with the addition of zero certification. We are concerned about the potential adverse impacts to cotton that may come with expanded authority to exchange crop acreage bases. We oppose the NCA concept, and maintain that the current authority provides adequate planting flexibility for cotton producers.

We appreciate the opportunity to appear before you today on this issue, and we will be happy to answer any questions that you may have.

[The prepared statement of Mr. Heiden appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Heiden. We appreciate your testimony, and we especially appreciate your specific testimony.

Mr. Schwensen.

**STATEMENT OF CARL SCHWENSEN, EXECUTIVE VICE
PRESIDENT, NATIONAL ASSOCIATION OF WHEAT GROWERS**

Mr. SCHWENSEN. Thank you, Mr. Chairman. I want to compliment you and Congressman Glickman on this hearing. I think it is a very important hearing. You have uncovered some very pertinent information here already this morning.

Much of what has been said already, my organization is in agreement with. We do see that the current base system is a very rigid system. We recognize that when we wrote the 1985 farm bill that we felt that, at least in the case of wheat, we were on the verge of a new generation of wheat surpluses. But since that time, because of the dynamics of the act itself, we have been able to turn the wheat situation around.

My organization does support the normal crop acreage type system. That system was put into place in the 1977 act, and I think the authority still exists to implement it. We feel that by allowing farmers to annually set their base based on market signals that a healthy degree of flexibility is achieved.

With regard to the triple base, we have the view that others have expressed here this morning that it is basically a back-door

means of cutting target prices. It is very transparent in what it seeks to achieve, in our judgment.

We assume that it will be part of the debate for the 1990 farm bill, perhaps even this year in reconciliation.

Because it is budget driven, we see a real danger in simply giving the administration the authority to make assumptions and to factor back the pay base according to those assumptions across the board, treating each commodity in the same way regardless of its supply-demand situation.

We have supported in each year since enactment of the 1985 act the 10-percent base shift authority that was made available to the Secretary. As a previous witness indicated, in no year since the authority has been made available to the Secretary has he used it, and we also assume that it won't be used through the life of this farm bill. Certainly, it is not part of the 1990 wheat program that has been announced.

That will conclude my remarks, Mr. Chairman, and I would be pleased to respond to questions from the subcommittees at an appropriate time.

[The prepared statement of Mr. Schwensen appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you. Mr. Schwensen.

Mr. Wentworth.

STATEMENT OF STEVE WENTWORTH, PRESIDENT, BOARD OF DIRECTORS, NATIONAL CORN GROWERS ASSOCIATION

Mr. WENTWORTH. Thank you. Chairman Glickman, Chairman Huckaby, good afternoon, and thank you for the opportunity to visit with your subcommittees today. I am president of the National Corn Growers Association and a corn-soybean farmer from Oreana, Illinois.

To begin with, I would like to stress that our organization firmly supports farm programs which still keep the concepts of market-oriented agriculture. I think it is that emphasis on market factors that has helped to make the 1985 Food Security Act such a success.

A couple prime examples are the lowering of price support levels to make our products more competitive in world markets, and the reduction of Government-held grain stocks, which acted as a weight on prices.

As the 1985 Farm Act enters its final months, many agricultural groups are calling for the new farm bill to give producers the ability to follow market signals even more closely. They want to be able to switch more of their acreage to oilseeds and other crops, as prices warrant. But at the same time, they don't want to lose their acreage bases for corn, wheat, and other program crops. Flexibility does indeed seem to be the call of the day within agriculture.

Just as we favor more market-oriented farm programs, the National Corn Growers Association supports giving farmers a certain degree of flexibility in planting oilseeds or other feed grains on their program base acres.

You don't have to look far to find good examples of the concept of flexibility already written into law. One is the provision of the 1985 Farm Act giving the Secretary the discretionary authority to

allow the substitution of up to 10 percent between acreage bases for different crops.

Mr. Roberts has been a tireless proponent of substitution. I know almost every time the Secretary visits the committee, Mr. Roberts reminds him of section 505.

In addition, the so-called 10-25 option in last year's drought relief bill was a good start toward a farmer flexibility program. As you know, it allowed farmers to elect to plant soybeans and sunflowers on 10 to 25 percent of their base acres without losing base credit.

The drought aid bill also allowed farmers to freely switch their program crop acres to oats.

However, the 10-25 option was flawed, in our opinion, when USDA was allowed to limit the number of acres that could be switched in order to keep soybean prices above the \$5.49 per bushel level. As you will recall, farmers were finally given authority to switch 80 percent of the land they had signed up for.

A true farmer flexibility program should set parameters for acreage substitution, like the 10 to 25-percent range allowed this year, and let farmers freely choose how much to switch when they plant without being second-guessed by the U.S. Department of Agriculture or having to make another trip to the ASCS office.

Take note of the fact that I stressed farmer flexibility. We have real concerns that some of the current flexibility concepts, including the triple base proposals, could wind up being used more as a back-door method to cut farm program spending. Although they may be well-intentioned, those plans stand to give the flexibility to the administration to limit acreage eligible for program benefits.

We recognize the need to cut Government spending at all levels, and feel the feed grain programs have contributed to the savings your Agriculture Committee has provided. But let us not use the honorable goal of responding to market signals as a cover for unintended cuts in the programs so important to the Nation's farmers.

Now, on the subject of farm program yields, our organization supports the concept that actual, proven yields should be used as the basis for program payments. Although farmers were allowed to prove their actual yields earlier this decade, they have not been able to update their yield data since 1986. Many farmers painfully felt the result last year when their disaster payments were based on USDA's established yields for their farms, which were substantially below what they had actually been growing.

The House just recently took a step toward correcting this problem when it passed a bill cosponsored by Mr. Jontz and Mr. Madigan that allows all farmers to report their actual yields. That measure also requires USDA to report on the potential cost of basing program payments on proven yields, and, as Chairman Glickman said, it may prove to be a valuable tool in estimating costs during the farm bill debate.

In summary, we feel that increased planting flexibility within a farm program system using more realistic yield statistics would be one way to make U.S. agriculture more market-oriented. Our hope is that any program changes contained in the new farm bill are administered fairly among all commodities and put flexibility in the hands of farmers.

Thank you very much.

[The prepared statement of Mr. Wentworth appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Wentworth.

Mr. Yoder.

**STATEMENT OF STEVE YODER, MEMBER, BOARD OF DIRECTORS,
AMERICAN SOYBEAN ASSOCIATION**

Mr. YODER. Thank you for the invitation to be here today. I am Steve Yoder, a soybean farmer from Altha, Florida. I serve on the ASA board of directors and am here today in my capacity as a member of the ASA's 1990 farm planning group, the policies for the 1990's task force.

Traditionally, ASA's philosophy has been to focus on the soybean farm program while other farm organizations and commodity groups addressed their respective commodity programs. Increasingly, it has become evident that the economic signals sent by each farm program affect the entire crop production mix, since each farmer often produces several crops.

As Congress drafts the next farm bill, we recommend that Congress carefully consider the planting signals sent by Federal commodity income supports and crop base restrictions from the farmer's perspective.

During the past 1½ years when ASA's 1990 task force talked to many, many soybean farmers, we found that greater farmer freedom to make planting decisions is among the top four priorities, so was environmental policy. If farmers have more freedom to plant what is best for their farming operation, they can improve crop rotation.

More balanced crop rotation means better pest and disease control, conservative use of fertilizer and chemicals, and lower farm production costs.

We suggest this subcommittee explore options which meet the various soybean regional interests to achieve the goal of greater farmer freedom to make planting decisions. ASA stands ready to work with you to facilitate this process, since it appears possible and desirable to explore ways in which regional concerns might be addressed in an overall program.

Several structural changes in the base acreage system which would allow greater farmer planting freedom warrant consideration by these subcommittees. I would like to focus on three ideas today: the 10-25 provision, the triple base, and the normal crop acreage.

First, the 10-25 provision of the 1988 Disaster Assistance Act gave farmers some greater planting freedom. Importantly, it also opened the door for further debate. ASA believes the 10-25 provision is a step in the right direction, but would look favorably upon efforts to streamline the program.

Specifically, we recommend that the farmer reporting requirements and the possibility of a prorated reduction in planting be removed from the provisions. The prorata provision tells foreign producers that the U.S. Government must work to ensure that the world soybean price does not fall below \$5.49 per bushel.

ASA favors strong market-driven soybean prices, but we have very serious reservations about raising the publicized world price floor for foreign competitors producing soybeans. This will stimulate greater overseas production, to the detriment of U.S. soybean farmers.

The second base acreage idea I would like to discuss is the triple-base theory. Triple base seems to be a term which means different things to different people. As we understand, it restricts farm program deficiency eligibility to a portion of a producer's permitted acreage.

The producer would still have to comply with any set-aside requirements as a condition for farm program eligibility.

On the third base, meaning those nonpayment acres and nonset-aside acres, a producer would be free to plant program or nonprogram crops. Production of this third base would be ineligible for Federal farm program benefits.

Triple base is a concept which warrants further consideration. We recommend that it be evaluated as to how it might impact farmers who grow program and nonprogram crops.

A third base acreage idea is normal crop acreage. NCA is not a new idea and was implemented most recently in the 1978-79 crop year. Each participating farmers had an overall farm acreage base. On this farm base, a farmer could grow a mix of 14 various crops, including soybeans.

The NCA gave farmers a wide degree of freedom to make planting decisions. ASA recommends that the NCA be given serious study, with emphasis on a more flexible way of calculating the whole farm base.

We recommend that the next farm bill address the concern that current U.S. farm programs discourage production of soybeans in the United States and encourage production overseas. United States farmers get the signal to maximize production of program crops while our competitors see the opposite signal from the marketplace.

It is a well-documented fact that soybean and oilseed production is expanding rapidly in South America and elsewhere abroad while the United States faces a constriction in soybean production. The United States is losing world market share for soybeans, soybean meal, and soybean oil while demand is growing at 4- to 5-percent per year. It is alarming that soybean farmers are losing market share in a growing market.

United States production of soybeans and other oilseeds is down 31 percent, and acreage is down 20 percent since 1979. Foreign production is up 52, and acreage is up 22 percent. As world demand grows each year for vegetable protein and oil, U.S. farmers are watching foreign competitors expand and seize profit opportunities away from them.

Our challenge is to achieve United States soybean farm policy which lets us produce a quality crop for the market, generate a profit, and benefit from a growing world market. However, action on this idea should be accompanied by a hard look at the relative returns from various crops to determine how neutral the planting signals are from the Government to farmers. We believe that soy-

bean returns need to be brought more consistently in balance with other crops.

Mr. Chairman, that concludes my remarks.

[The prepared statement of Mr. Yoder appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Yoder.

Mr. Denison.

**STATEMENT OF JOHN DENISON, CHAIRMAN, LOUISIANA
DELEGATION, LEGISLATIVE GROUP, U.S. RICE PRODUCERS**

Mr. DENISON. Mr. Chairman, I am a rice producer. I also grow soybeans, wheat, and a small cattle operation. As a member of Louisiana agriculture, we appreciate your leadership and the dedication that you are making to rice, sugar, and cotton, and we are particularly pleased to see that you have elevated your position to become chairman of this distinguished group.

I am pleased to appear before you today on behalf of the U.S. producers legislative group. As you know, our group represents rice producers in the major rice-producing States, and I am chairman of the Louisiana delegation of that group.

Our group met last week and decided to oppose the triple base provision as a thinly disguised effort to cut target prices. In the rice industry, in many sections of the country, producers do not have an alternative crop, as has been pointed out earlier here today. The land is suitable solely for the production of rice, and the provision would be of no benefit.

The budget resolution has called for a reduction of \$600 million in expenditures for agricultural programs over which this committee has jurisdiction, and we are of the view that these savings should be achieved without reducing target prices.

At this juncture, we also believe it is too early to make commitments to budget reductions that must be made in the commodity programs for the future years, and specifically the 1990 farm bill.

We agree with Chairman (Kika) de la Garza's comment that agriculture has made significant and substantial contributions to the reduction of the budget deficit. It is our hope that if reductions are necessary, methods can be found for meeting the requirements without affecting target prices or farm income. In short, we believe that any discussion of methods for reducing target prices at this time is premature.

We understand another reason for this proposal is to permit flexibility in production so that producers may be able to produce alternative crops for which there may be a shortage. There are other means of achieving that objective without adversely affecting farm income.

For that matter, if producers of other program crops should wish to volunteer for a triple base plan, we obviously would not object, but wish at this time to reiterate that it is inappropriate for rice, for we feel that we have sufficient flexibility.

Another proposal has also been the subject of discussion today; namely, a proposal by Congressman Roberts and Congressman Stenholm that would mandate that the Secretary allow producers to increase the crop base of any crop on the farm, provided there is

a corresponding reduction in the acreage base of any other crop. The maximum adjustment on this proposal would be 20 percent of the farm acreage base.

With respect to this proposal, there are a number of considerations to be taken into account. On the one hand, the proposal does permit a certain amount of flexibility in shifting production as between program crops.

On the other hand, it makes it difficult for the Secretary to provide for a meaningful acreage limitation program for crops in surplus supply, not knowing to what extent there would be a shift in production after the announcement of the program.

Also, there is no assurance that the shift in base will be to crops for which there are insufficient supplies. There are other considerations, both pro and con, as well.

Accordingly, our group discussed these issues at our recent meeting, but was of the view that the proposal needed further study before we were prepared to express a final position.

I would be pleased to respond to any questions.

[The prepared statement of Mr. Denison appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Denison.

Mr. Anderson.

STATEMENT OF FLOYD ANDERSON, PRESIDENT, NATIONAL SUNFLOWER ASSOCIATION

Mr. ANDERSON. Good morning, Mr. Chairman and members of the subcommittee. I am Floyd Anderson, a farmer from Brocket, North Dakota, and president of the National Sunflower Association. NSA represents 11,000 producers and sunflower processors and the seed industry and seed companies in seven States. We appreciate the opportunity to testify today.

It is no secret that the current base system has been a disaster for the production of sunflowers and other commodities that compete for the program crops in the same acreages. Crop-specific bases are too rigid and encourage the planting of the program crops.

The limited substitution options in the nonprogram crops available since 1986 provide only base protection, forcing nonprogram crops to compete with the Government benefits as well as the price for the program crops.

When the prices are low, producers plant the program crops. When prices are high, they often stay out of the program to build base. The 10-25 provision that we had this last year where sunflowers had a 100-percent availability to it as far as they weren't cut, we could expect 350,000 acres of sunflowers additional in North Dakota. I doubt that 10 percent of that became a reality.

You might ask, well, why did that happen? The North Dakota wheat farmer is not willing to give any chance that the next farm bill will change his base participation like it did in 1981. We had sunflower farmers in 1981 that lost base when they were told that they wouldn't if they grew sunflowers during that period.

If we were to choose from the options that are on the table for this hearing, sunflower producers would favor some form of limited

flexibility that either guarantees or denies benefits on a portion of base acreage regardless of the crop planted.

Under either approach, the base history must be protected and the producers should retain the right to plant sunflowers and other nonprogram crops outside their base without penalty.

Balancing the competitive conditions for domestic acreage will solve only part of the problem, Mr. Chairman. We also compete with the oilseed producers in Europe, who receive two to three times the world price for their crops. As an oilseed that is up to 80-percent dependent on foreign markets, much of the sunflower lost acreage can be attributed to the high subsidy and domestic and export programs of our international competitors.

I know that members of your subcommittee are familiar with the sharp decline in the U.S. oilseed production and processing and exports during the 1980's. Other than to mention that the sunflower acreage has fallen 70 percent since 1981, I will not repeat the statistics that reflect this crisis today.

What I would like to stress is that our farm program does not provide oilseeds with the income guarantees of program crops. To maintain acreage, we must compete strictly on a price basis, and with limited budget exposure there is little leverage to sustain an aggressive oilseed export program.

Mr. Chairman, the sunflower industry was outspoken in opposing farm programs in 1981 and 1985, and Representative Stangeland will bring that up every time he is in session with us.

We supported a marketing loan for soybeans and sunflowers in 1987-88, and we are aware of the budget constraints facing this committee in writing the next farm bill, and recognize that providing oilseeds with the safety net of program crops may not be feasible. But we are prepared to ask for a full program for sunflowers if it is necessary to compete in gaining some of these acres back.

At the same time, Congress must recognize that our multibillion-dollar industry is in serious jeopardy. We are losing oilseed acreage, jobs, infrastructure, and exports every year. Oil imports are at record levels. We are, in effect, exporting our oilseed industry rather than our oilseeds.

We in the sunflower industry believe that the next farm bill is the right time and place for Congress to develop a comprehensive response to the oilseed crisis. Of the \$11 to \$12 billion spent annually on commodities and export programs, oilseeds account for less than \$100 million. A way must be found to reallocate Federal resources if our industry is to have a fair chance of survival in the 1990's.

Mr. Chairman, there used to be a lot of buffalo in North Dakota. Then the free market took over. Today, the buffalo remain in protective parks. I have watched the sunflower crop in our State shrink in the same way. Without wearing out an already overused analogy, oilseeds will go the way of the buffalo if we don't do something in the next farm bill.

Thank you, and I will respond to any questions you may have.

[The prepared statement of Mr. Anderson appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Anderson.

Mr. Glickman.

Mr. GLICKMAN. That shows you we have flexible base and we have flexible timers here. [Laughter.]

I don't really have a question. The only thing that I would bring to your attention—and I am going to ask the next panel this as well—is that I am just sitting here thinking that base and yield problems are like a Rube Goldberg situation.

I mean, it is like we are designing kind of through an inductive method a way to do something that we can't seem to do very directly, and I go back to this point again. Why not go to some sort of unit of production method and get rid of the whole concept of bases and yields?

Why not basically go to a situation where the Government essentially says, well, we think we need "x" amount of million bushels of wheat produced domestically and "x" million for overseas, and that is what we will support you on and you can grow anything you want over and above that, period, and the same thing with cotton, the same thing with rice?

I mean, when you go the acreage way as opposed to the unit-of-production way, you are doing something indirectly as opposed to doing it directly. And I realize the problems about doing it directly because when you do it directly, there is a lot more accountability in the proposal. There is no fudge factor in the proposal like there is doing it indirectly. That is why people like it indirectly.

But, I go back to this situation. We are going to go and we are going to sit down and we are going to bring in all the agricultural Einsteinian physicists like Dr. Womack and others who are going to sit down and tell us about how this incredible process will work in terms of land and how we divide land and how we subdivide land and how we are going to, not going to, use this quarter and how we are going to use this quarter, and you have to wonder.

I mean, I know we have gone over this dozens and dozens of times. Why not just do it directly? Why not just have Uncle Sam say we will support "x" units of production and, Mr. Farmer, you can produce anything you want to? You are just going to get the support of what units of production that we think is the amount that is useful both for domestic consumption and overseas use.

I don't necessarily see that as being in any kind of opposition to an open export policy either. It sure is a lot easier to do and it would sure mean hiring a lot less ASCS people out there in the field.

Mr. Schwensen, do you have any comments on that?

Mr. SCHWENSEN. Thank you, Mr. Glickman. I understand your point. It seems like we have taken these programs and stood them on their head, and we are trying now to generate production through programs which originally were devised to curtail production.

The idea that you have, I think, deserves to be explored. We have had programs like that in the past and they do make a good deal of sense. They amount to a degree of decoupling, a concept that is not totally embraced by all farmers and organizations which represent them.

But I think your idea has merit.

Mr. GLICKMAN. It is very frustrating to see us deal with something that is so imprecise like the acreage base issue and try to put

boundaries on it. It is just almost impossible to happen, and I think we are trying to make a square peg fit in a round hole, is what we are trying to do here.

I know that it is uncomfortable to explore anything dramatically different than what we are talking about, but, I think you end up with costs being the same and Government involvement being the same. And maybe in the last analysis it doesn't make that much difference, except it puts a lot of Government employees to work, which is what we are doing right now.

But I am sitting here hearing all of you talk about all these things, and triple base. And I think it is Mr. Denison who says that you don't mind it, but you don't want it for rice, but you will take it for everything else. Everybody else has—how they fit into this kind of thing, and some of you are very comfortable the way that things are right now, and maybe you should.

Maybe there is no reason to make any changes, but it just seem that we are trying to do something extraordinarily complicated that we may be able to do a lot more simply. So I just throw that out right now because I think it needs to be mentioned in connection with the whole subject of base flexibility.

Thank you, Mr. Chairman.

Mr. HUCKABY. The gentleman from Florida.

Mr. LEWIS. Thank you, Mr. Chairman; just a couple of questions.

Mr. Yoder, if the 1990 farm bill were to provide you with more planting flexibility, how would you choose your rotation and what kind of effect would you expect to see on your yield and production?

Mr. YODER. I think that we probably are a little bit like Congress. We are a little bit budget-driven, and that would have to be taken into consideration when it comes to what rotation we would choose.

I think that after that, we would take into consideration soil types, moisture capacity from year to year. I think that it would be something that we would look at as far as how much chemicals we could get by without. Naturally, following one crop behind another crop in a base acreage lock, we have to use more chemicals; we have to use different types of chemicals. I think you would see us use less chemicals, less fertilizer. I think that you would see us move more to a market-oriented type crop mix on our farms.

Mr. LEWIS. With the current U.S. crop provisions and the world demand for soybeans and oilseeds, where do you see the U.S. soybean industry heading in 1990?

Mr. YODER. World demand is going to continue to expand; I have no doubt about that. I think that South America will probably expand acreage 10 to 15 percent. I think that U.S. acreage will expand at a much slower rate, and very possibly we could see acres decrease in America.

I think the bottom line—without a change in current trends, we are concerned that we will become a secondary supplier. We would be the second choice. The United States would store all the soybeans and American soybean farmers would be the second place the market would come to.

Mr. LEWIS. I would like to address this to the panel. I have already heard some of your agreements and disagreements on this,

but do you see the incorporation of a more flexible planting program as a means to improve the current environmental situation that is confronting the agricultural industry?

Mr. DENISON. That is an aspect that I don't know that any of us specifically has addressed. It would depend upon which crop you switched to as to whether or not you use more chemicals or less chemicals.

In wheat, I use a minimum of chemicals; rice, we use a lot of chemicals; soybeans, we use a lot of chemicals. In cotton, there are lot of chemicals used. And I presume chemicals would be the greatest fear to the environment at the present time. That is what we are facing.

Mr. YODER. I think that in some situations you would see a lot of erosion control, depending on which crop you switched to.

Mr. LEWIS. Well, that is not a very sexy question, Mr. Chairman, so I will pass the mike back to you. Thank you.

Mr. HUCKABY. I thank the gentleman.

If I might recap, Mr. Heiden, I believe basically you are saying that the National Cotton Council is satisfied with the status quo. You are not for triple base or the flexibility. You would pretty much like to maintain the existing program, is that correct?

Mr. HEIDEN. That is basically correct, Mr. Chairman, with the exception of the addition of the zero certification provision.

Mr. HUCKABY. Right. Mr. Denison, would that also be true for rice?

Mr. DENISON. I think we would concur with cotton's position. We think it is working.

Mr. HUCKABY. Mr. Wentworth, you talk about a little bit of flexibility, but how would you describe your position?

Mr. WENTWORTH. Well, I would say our position is such that we would prefer to gain the flexibility of the farmer flexibility through the possible use of a recourse marketing loan across the board for all commodities.

I think when you cut away from all the fat and everything that is talked about, that is how you would get to true farmer flexibility the quickest and most effectively. Maybe there are other considerations that wouldn't allow that to happen, but if you are wanting flexibility, that is one aspect of addressing it.

Mr. HUCKABY. And, Mr. Schwensen, I believe you were the only organization that testified in favor of the NCA, specifically?

Mr. SCHWENSEN. I believe that is right, Congressman.

Mr. HUCKABY. Mr. Yoder, I believe the ASA said they wanted to study that proposal, as well as the flexible base and the triple base—to study all of them.

Mr. YODER. Right.

Mr. HUCKABY. Might I urge that you as we approach the 1990 farm bill, if you wish to come with specific recommendations, don't get left at the starting gate like you did 5 years ago?

Mr. YODER. I appreciate the advice, sir.

Mr. HUCKABY. And let me say that the in-thing seems to be flexibility now, market-oriented, but keep in mind that in many of your markets you don't have a true world market that you are responding to those signals. You have got the EEC over there that has a

much stronger program than we have ever dreamed of having here, and I don't see any signs of that coming down.

I basically feel that this farm bill has worked. I think you made a very good point that it was designed to curb production, but in most of our commodities today we still have surpluses, and you are probably going to have ARP's again next year in all the commodities.

One can perhaps say we are losing some soybean sales, but would you rather have \$6.50 soybeans at the farm level, or would you rather have \$5 soybeans and selling a lot more, maybe? You are helping some segments of the industry, but not the others.

I think these are some of the things that we have still got to address. When you talk about flexibility and increasing sales, most times you are talking about reducing the price that the farmer receives.

Would anyone like to respond?

[No response.]

Mr. HUCKABY. If not, thank you so much for being with us. We certainly appreciate your testimony.

Our next panel is Mr. Grant Buntrock, who is the associate director of the NFO here in Washington, DC; Mr. Howard Lyman, director of the National Farmers Union, also of Washington, DC; Mr. Robert Nooter, assistant director for national affairs, American Farm Bureau; and Mr. Dave Senter, who is the national director of the American Agriculture Movement.

Gentlemen, we welcome each of you to the subcommittees. Mr. Buntrock, you may proceed.

STATEMENT OF GRANT B. BUNTROCK, ASSOCIATE DIRECTOR, NATIONAL FARMERS ORGANIZATION

Mr. BUNTROCK. Thank you, Mr. Chairman. I, too, will keep my remarks brief and try to highlight my statement, with the understanding that it would be made a part of the record.

Mr. HUCKABY. Your entire statement will be made a part of the record.

Mr. BUNTROCK. I do want to take this opportunity to commend the chairmen of both of these subcommittees and their members for holding this hearing on this question of flexibility.

I guess there is no question at all at this point in time—I don't think I have heard a single witness up here that has questioned the need or the problem of flexibility which is inherent in the 1985 Food and Security Act.

Just a little bit of background. Before coming to NFO, I had worked with the programs in the U.S. Department of Agriculture through ASCS in the administration of many of these farm programs, and I guess I would say, too, that I don't believe that I have ever seen a program that has more influence on a farmer's decision to make planting decisions or on the market or the income that he receives for his crop than the current program has.

Historically in a lot of the Corn Belt area we had 20- to 30-percent participation in the program, compared to 80 to 90 percent today, because of the income level of support in these programs compared to what many programs in the past have done.

This basically should have been a very positive thing from the standpoint of market prices and supply of some of these commodities. The truth of the matter is it just hasn't worked that way.

I think many of these things have been mentioned, but to just support some of the things that have been said and to make known the National Farmers Organization's view, we feel there are two underlying problems.

Intended or not, the 1985 Food and Security Act, in an effort to regain export markets and improve our export position in the marketplace, was basically designed to affect market prices, and certainly it has done that.

To give some examples of the impact of price not only from the standpoint of income support payments that a farmer has depended on for much of his income with these program commodities, but even in the marketplace, as a result of many of these programs the CCC is involved in our markets in this country through the direct sale and redemption of commodity certificates, and so on, to the extent where Commodity Credit has moved about 900 million bushels of wheat, close 2.5 billion bushels of corn, and about 456 million bushels of soybean through our market system, whether it be export or domestic, during the past 3 years.

You simply don't do that without having a negative effect on our market prices, and therefore, make farmers more dependent on these programs for their income as opposed to the marketplace.

I think one of the things that Chairman Glickman mentioned a couple of times today is that he is very, very concerned about the relative relationship of price support or income support levels between the various program commodities.

I think all of us have heard the old rule of thumb of soybeans versus corn. For many, many years, we have said that soybeans should be from 2 to 2½ times the corn price support level in order for soybeans to compete with corn for acreage on a given farm.

Today, we support soybeans at slightly over 1½ times the price of corn, and I don't think there is any question that that has had an impact on declining acreages of soybeans not only in the Corn Belt, but also in many areas of the Southeast.

Another example, I think, that was mentioned here earlier is oats. I can speak to that fairly well, coming from South Dakota. Oats historically had always been a pretty major part of our cropping plan, with a mix between barley, wheat, and oats, and in recent years we simply have quit planting oats.

I wanted to give the committee a little example of exactly what an individual farm in South Dakota might look at, which I think is fairly typical of a lot of the oat-producing area.

Our current established yield on oats on our farm is 51 bushels to the acre—that is program yield I am talking about—compared to 55 for barley. By multiplying the target prices times these yields, you immediately are looking at a \$57-per-acre bias in favor of barley versus oats on our farm in South Dakota.

We have on our farm about a 360 to 370-acre mix of barley and oats. With the substitution provisions between barley and oats during recent years, we have about a 20-acre oat base left, where half of the base had been oats previously.

As was said earlier, our oat acreage dropped to just a little better than half of what it was 10 years ago in this country. We used to import a little oats from Canada. We are now importing them from Europe since we hardly meet 50 percent of our needs in this country, and I think this program is a very good example of why this has happened.

In respect to recommendations, NFO has two recommendations. The first one is that we need to conduct—we would ask the committees to require the USDA to conduct a review of these price support relationships between the commodities, and to attempt to put them more in line so that you have a relative relationship in terms of the amount of support between the commodities.

As long as we are going to continue to be dependent on program benefits for our income rather than the marketplace, which is the direction that we have taken, this is always going to be a factor in terms of bias on planted acreage. And we don't see any real major change or shift away from that for the time being as long as we have the export-oriented policy and continue in that direction in order to compete with the Europeans and some of the others in world markets.

If that continues, we are always going to have this bias or this problem of bias in terms of the income level that you set in the Government. You don't get your signals today from the marketplace; you get it from the Government. This \$57-an-acre bias referred to earlier is what I was talking about.

Now, NFO does propose the shift away from the per-acre base and yield to a farm bushel or poundage base, or farm production base, whatever you want to call it, and then limit program benefits to that production base for the farm. You could produce in excess of that, but you would simply be without program benefits or price support loans on that amount in excess.

We think there are many advantages to doing that, and many of them have been mentioned earlier by Mr. Glickman so I won't dwell on any of them. But it definitely would provide greater planting flexibility in that a producer would not have to be concerned with the number of acres he planted.

In other words, his income support would not be based on how many acres he planted.

There would be environmental benefits to this from the standpoint that you do remove a great deal of the incentive to increase yields through the use of heavier chemicals for improved program benefits.

I think there is a definite budget savings under this approach, since you would be limiting the support for that commodity to that bushel base on the farm, as opposed to what he might produce on the total acreage involved.

Last, I think, is the area of simplicity. I don't think there is any question but what it would be much better understood by farmers and producers, and I think it is something that ASCS could very easily administer.

In closing, I just want to say that we do recognize as a farm organization that we are going to have to operate programs, like it or not, at much less cost than what we have had in the past.

However, we do feel that with these budget constraints, there is potential to come up with a better program or a better method of operating a program to give producers a better shot in the marketplace through some of these provisions by taking some of this bias off between the commodities.

Again, I thank you for the opportunity to be here today, and I will be glad to answer questions later.

[The prepared statement of Mr. Buntrock appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Buntrock.

Mr. Nooter.

**STATEMENT OF ROBERT I. NOOTER, ASSISTANT DIRECTOR,
NATIONAL AFFAIRS, AMERICAN FARM BUREAU FEDERATION**

Mr. NOOTER. Thank you. I thank both chairmen for the opportunity to present the American Farm Bureau's views, and I will present to you a very brief summary of our prepared statement.

I would like to say first that developing solutions to the shortcomings of the 1985 farm bill base acreage provisions is going to be a difficult task because any change is bound to affect individual producers in different ways due to variables such as farm structure, commodities produced, or region of the country in which the farm operates.

A variety of solutions to the limitations of the current system have been proposed, but I would first like to ask you to keep the following points in mind when developing responses to the current situation.

First, simply giving producers the opportunity to shift program acreage from one commodity to another will not assure complete responsiveness to additional demand for a particular commodity. Producers will respond to the economic returns that they expect to realize from a given mix of commodity production.

A good example would be the limited success of the 10-25 soybean-sunflower acreage shift provision under the Disaster Assistance Act of 1988. Producers apparently decided that the returns derived from the traditional program crops would be superior to that of soybeans and sunflowers.

Second, some producers may not be able to take advantage of the benefits associated with planting flexibility. Their production options may be limited because of climate, soil type, available capital, and equipment. Therefore, if any flexibility is coupled with reductions in program benefits, these producers will feel the income loss but gain nothing from the flexibility.

Third, certain producers may be detrimentally affected by proposals that would give program crop producers additional planting flexibility. For example, Farm Bureau nonprogram crop producers are concerned that they may experience lower incomes because of the reduced prices from increased production. As a general farm organization representing farmers and ranchers of all sizes and producers of virtually all commercially-produced commodities in this Nation, the Farm Bureau is particularly sensitive to the concerns of producers who might experience problems as a result of unanticipated effects of commodity program adjustments.

With respect to some of the specific proposals that have been discussed here today, I would like to comment on H.R. 2294, the bill by Congressman Stenholm and Congressman Roberts which would require the Secretary to permit farmers to shift up to 20 percent of their farm acreage base from one program crop to another.

The Farm Bureau is very supportive of making the discretionary authority in the current law mandatory, which would permit producers to shift up to 10 percent of the farm acreage base from one program crop to another.

I think this would allow producers to minimize the base distribution that may be assigned to crops that no longer fit the farmer's rotation or desired combination of commodity output. Therefore, we would support the adoption of H.R. 2294 this year if it were modified to limit the shift to 10 percent.

Regarding triple base proposals, we would like to say that these have been under consideration for quite a long time, for several months now, and as you have heard from many of the groups, many of the economists, there are different opinions at this point.

The Farm Bureau has reviewed the concept, but has not endorsed it as a means of achieving greater flexibility. The triple base option has some attractive features for some farmers, but there would be the possibility of inequitable consequences in the area of nonprogram crop producers.

Also, our research concurs with the FAPRI analysis which shows that farm income would be reduced almost on a 1-to-1 basis with the reduction in Government payments. The distribution of this loss of farm income is likely to be borne to a great degree by non-program crop producers.

I want to thank both the subcommittees for holding this hearing and addressing this issue which I think all of us feel will be very important both this year and in developing the 1990 farm bill, and I would be glad to respond to your questions.

[The prepared statement of Mr. Nooter appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Nooter.

Mr. Lyman.

STATEMENT OF HOWARD LYMAN, LEGISLATIVE ANALYST, NATIONAL FARMERS UNION

Mr. LYMAN. Thank you, Mr. Chairman. My name is Howard Lyman. I will reflect the views of the National Farmers Union and I will attempt to be very brief.

The intent of this hearing is to look at the flexible base program for farmers and the triple base, in particular. Our idea of triple base is nothing more than "decoupling lite." The concept that we grow a crop and sell it below the cost of production, in our opinion, is nothing more than giving a drowning man a drink of water.

The idea that there is some great nonprogram area out there that a farmer should jump into and achieve great profitability is nothing more than a myth. If that was available, they would be out there; they would be doing it right now.

We do need to view a couple of things that have happened since the 1985 farm bill. We have right now 31 million acres in CRP,

which is very significant. If we were to go back and look at the Harkin-Gephardt bill today, with that amount of acreage out—and it could be 45 million acres by 1990—it makes a significant difference on the impact it would have in an ARP requirement.

The other thing that we have to look at today is that in 1985 we first saw the environmentalists get involved in agricultural policy. Both the environmentalists and the consumer are going to be extremely involved in the 1990 farm bill.

The taxpayer, the environmentalist, is going to require that we address the natural resources that are out there for the amount of money that we are putting out. And if we do not address it in the farm bill, we definitely will address it in other committees. Farmers are going to have live with it whether we like it or not.

Food safety is probably the No. 1 issue among consumers that are out there today. They want to know how their food is grown and why, and the thing that we have to remember is all of the food is not domestically produced, and that food that is imported is going to have to live within the same requirements as domestically-supported food.

The Farmers Union, in their convention, basically came up with several points that they would like to see in the 1990 farm bill. They would like it long term. They would like a parity of income between their urban and suburban neighbors. They would like supply management based on bushels and pounds.

They are willing to work within tiered marketing quotas, set-asides, price supports. They would like to see some realistic limitation on both deficiency payments and loans, and they would like to see the Government programs targeted to small- and medium-sized operators. They would like to see the farmer-owned reserve to be a benefit for farmers and not a government support for the inventory of the grain organizations.

To achieve this, we believe there are some realistic ways that we can do it. No. 1 is to target. We have a certain amount of dollars that we are working with that are going to go into farm programs; target those into the direction that we want them.

We need to go to a bushel program. There is absolutely no reason that we today cannot decide what are the needs of the Nation as far as a commodity both in domestic and export, and share that among the producers that are out there and end up allowing the producer to take his entire land base that he has and produce his share of that.

What we are talking about is fewer Federal dollars going out there. Why don't we allow the producer to work on his net? He already has overhead costs that he is paying on the cost of his land. Why not allow him to grow more acres of that land less intensively and increase his net? If we do that, we can significantly benefit the producer at no cost to the Federal Government, and that program could be run almost to the dollar.

We talk about flexible-base commodities. An interesting thing that was brought up today is how much out there of a benefit is it to have a good rotational program. We talk about CRP. Why not take a look at a 3- or 5-year CRP program? How about taking a look at a multi-year ARP so that you can go back in and put a cover crop in?

Why do we not take the people that keep jumping out of the program, and instead of letting them build base, why do we not go out there and remove some of their base for being out of the program, go back to targeting where we want the dollars to go, and put the farmer-held reserve in the hands of the real producer?

Thank you, Mr. Chairman, for letting us have the opportunity to address this very important subject.

[The prepared statement of Mr. Lyman appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Lyman. We appreciate your testimony.

Mr. SENTER.

**STATEMENT OF DAVID SENTER, NATIONAL DIRECTOR,
AMERICAN AGRICULTURE MOVEMENT, INC.**

Mr. SENTER. Chairman Huckaby and Chairman Glickman, I appreciate the opportunity to appear before the subcommittees today to present our views.

The American Agriculture Movement believes that commodity bases and program requirements must be designed to allow commonsense decisions. "Flexible" seems to be the new buzz word. We believe it should be "common sense."

We believe that the program should be predictable and simpler.

We want to commend this committee, and particularly Congressman Jontz and Congressman Madigan, for the quick action on the proven yield bill, which we do support and think very important to the next farm bill.

We also oppose creating a separate payment base in order to cut costs of the farm programs. The American Agriculture Movement continues to advocate raising the loan rates to achieve the savings necessary to meet the budget criteria.

We do support allowing producers of wheat, feed grains, and soybeans to switch up to 20 percent of their commodity base among those commodities in order to respond to whatever the market needs might be.

We would like to see the target prices and loan rates put back in the proper ratio between commodities to prevent people planning for programs instead of staying with historic planting records in different areas.

We support establishing what we call the soil restoration program. The SRP would be a 3-year program; that a cap on the amount of land that could go in be put on it, but that this be bid in similar to CRP as a short-term program that will allow producers that want to move into lower-input agriculture could put a cover crop and begin the proper rotation.

We also support a program based on bushels and pounds rather than acres. We believe that soybeans should become a program crop, and in our recommendations for the 1990 farm bill we will recommend a target price be placed on soybeans where a soybean farmer could receive up to \$50,000; if they produce other program crops, only the difference between the combination of that and \$50,000, which will be something for soybean farmers that they have never had.

We believe that the yield history that is established at USDA should apply to Federal Crop Insurance, Farmers Home, and all the different USDA agencies. We believe that any producer that opts out of the program should automatically be out the second year, and that they take a zero yield and base history for those years out of the program.

I know Chairman Huckaby will take note of this. AAM does support continuation of the marketing loan program for cotton and rice, but does believe that we should raise the loan rate, which would solve some of our payment limit problems with the program and some other changes along those lines too.

In concluding, I would say that we recommend placing as much authority and as much decisionmaking as possible at the local ASCS level. These people are in the best position to tailor programs to fit local needs and conditions.

We look forward to working with both these committees in designing the 1990 farm bill. Thank you very much.

[The prepared statement of Mr. Senter appears at the conclusion of the hearing.]

Mr. HUCKABY. Thank you, Mr. Senter.

Mr. Glickman.

Mr. GLICKMAN. I want to thank you all for testifying. I want to go back to this thing again because I doubt we are talking about something that is going to be a part of a budget reconciliation package; at least I hope. I think that it would complicate the problems that farmers have right now to have to come in and sign up more than once and have three bases instead of one or two. I mean, as I said before, they will think we ought to have our heads examined. But, obviously, it has got to be one of our things we are going to look at.

Tell me why we could not go with some form of unit-of-production approach as opposed to land approach, which we currently do. Now, maybe I am looking at it naively. I suppose you would still have to have some history to guide the Government on how it would pay producers, and so with history that gets you locked in again to what has happened in the past.

But let us say that the Government made the judgment that our domestic export use would be 1.5 billion bushels of wheat, and that it is going to support 1.5 billion bushels of wheat. I mean, why support 2 billion bushels directly, or 1 billion bushels directly? It is going to support what we need to support, and it will pay producers on a per-bushel basis for that. But it will not tell the producers they can't produce more than that. It will just support it on that basis.

We have talked about this for years. As Jerry was telling me, it may be easier with cotton or rice than it might be for wheat or corn, because it is a smaller commodity and it is more definable in terms of production.

But as we wrack our brains, I go back to this idea that we are trying to do indirectly what we don't want to face directly. Why can't we do this? What is the argument against it? That is what I want to know.

Anybody? Mr. Nooter.

Mr. NOOTER. Well, I think I am the only organization here that hasn't endorsed that, and I think it is one item that will be under consideration within our policy development process.

But as I look through the discussions we have had until now, I think a lot of producers view that as essentially a quota program, and would view it as something which they would think that their marketing decisions can be better made on the farm than the Government making them.

Mr. GLICKMAN. But as a practical matter, that is exactly what we are doing right now. We just don't call it that, but it is exactly what we are doing right now. Now, the form that it takes makes producers believe that they have more individual planting decisions.

But once you go into the ASCS office and work out your program, you probably have less flexibility than you would under this kind of thing.

Well, I guess what I am trying to say is that I know on occasion we have done this before. I may not be looking at it quite as some of the groups may be looking at it where we would set up quotas and limits and everything else.

My feelings about decoupling may not be exactly the same as everybody else on this panel as well, but I am trying to figure out if there is—what I fear we are going to do is we are going to mess up the bases and yields situation—

Mr. HUCKABY. Would the gentleman yield?

Mr. GLICKMAN. And we are not going to end up any better or any worse than we currently are right now.

Let me yield.

Mr. HUCKABY. What you are describing is very similar to the Peanut Program we have today, I think, where I support a certain amount at the total cost of production, including a return on investment.

Mr. GLICKMAN. Yes.

Mr. HUCKABY. And anything about that, you get world price.

Mr. GLICKMAN. Yes, essentially. I mean, you are not limited to producing above that.

Mr. HUCKABY. Yes. You can produce whatever you want.

Mr. GLICKMAN. And, of course, the key to this is what level of production are you supporting? If you support it extraordinarily high, then nobody will produce anything else.

Yes, Mr. Senter.

Mr. SENTER. Mr. Glickman, one big advantage, and I guess the driving reason that our organization supports the bushel-and-pound concept, is the fact that people now are forced to intensively farm, to crank all the bushels and pounds you can off of the acres that you are allowed to plant.

If we were told that you could produce 1,000 bushels of wheat off of this farm, or 10,000 bushels or whatever, well, then we could make a decision. If we want to summer fallow and rotate, plant more acres or less acres, we know how much we are allowed to put under loan and get program benefits.

So it will allow us to do a lot better job of farming and be more flexible. At the same time, the Government can get a direct handle on cost because you know you are going to support this many bush-

els. We have a bumper crop and all of a sudden program costs skyrocket. The Government will have a handle on it and farmers will be more able to make decisions on their farms.

Mr. GLICKMAN. We may end up having big fights on prices for these commodities. Some will say that they want \$6.60 a bushel for wheat, and we may say, well, we can't afford that. I am sorry, folks; we have to go with \$4.20 a bushel, or whatever else it is.

But it does seem to me that it is like the young man and the young woman who don't go out with each other; they want to go out with each other, but they are afraid—I had better watch what I am saying here. [Laughter.]

He is afraid to make the direct——

Mr. HUCKABY. It is a boy and girl?

Mr. GLICKMAN. It is a boy and a girl, yes. He is afraid to make the direct call, and so he does it indirectly. Well, we are doing this all so indirectly, and I think people like doing it indirectly because I think it gives them what I would call the fudge factor so they are never really under any accountability at all. I just think it is an appropriate time to look at that.

You know, Charlie Stenholm and Pat Roberts talked about triple base, single base, all those things. They have avoided this subject right now that we are talking about right now, which is doing it maybe a slightly different way.

And I am not sure that you can't do it and achieve some of the flexibility and maintain yourself with market access into the world. I mean there are a lot of folks that resist the Harkin-Gephardt approach and don't want quotas, and we probably won't see that.

I don't necessarily see this as a Harkin-Gephardt, but I don't see it the way the current program is taking down, which is overutilization of acres in order to squeeze everything out that you can. It is a very natural thing to do. It is very anticonservationist and it hasn't been very productive, and it is a game to people; it is a big game.

Yes?

Mr. BUNTROCK. I would just add to what you have said. I think it is real important that we don't give the impression that we are talking about Harkin-Gephardt or that we are talking about mandatory controls.

Mr. GLICKMAN. I know that.

Mr. BUNTROCK. Basically, it is a distribution, if you will, of price supports or farm income supports, and it does seem like a lot simpler way to do it than under the current system that we have now, particularly when you get into substitution.

Mr. GLICKMAN. Yes. I mean, it answers the crop flexibility problem, providing that you set your payment levels at reasonable levels not only in the abstract, but how they relate to each other.

Yes, Howard.

Mr. LYMAN. Mr. Chairman, what you are talking about is exactly what we should do. Everybody wants to deal with the program we have now as an illusion. We might as well face up to the fact that there is a certain amount of domestic market, a certain amount of export market. That is what we should be working on, and achieving that.

And we might as well go out there and target the limited benefits that we have where we want them to go, and the best way to do that is to go off of the historical fact of how much base do we have out there, make it reflect what the productability of that land is, divide it up, and say that is yours and you grow it the way that you want to grow it.

What David is saying is exactly right. We will get some flexibility, some crop rotation, and some good environmental production out there. Once we tell the farmer this is your share of the pie and you grow it the way you want, then he starts working on his net and not on his gross, and it makes a lot more sense.

Mr. GLICKMAN. It strikes me, for those who are interested in the free market, that the current system of agriculture is every bit as socialist as anything they have in the Soviet Union because you are restricting the producer to how many acres he can actually produce on if he wants to be in the program.

A much more direct and a much less interventionist way would be to tell him, well, we are going to pay you this amount and after that you do whatever you want. You might even use your land any way you want to.

I don't mean to just keep talking about this, but this is what I—the first day I came into Congress—from the first days this was what I thought we ought to be doing, at least seriously thinking about it, and we have never done it.

Yes?

Mr. NOOTER. Can I make one final point?

It is similar to what we do in the Peanut Program, but there are some differences in terms of our knowledge of the domestic market in peanuts. It is a more concentrated commodity where there is a lot more interrelationship and substitution between corn and wheat in terms of feeding, the uses on farm versus that that moves into the marketplace, and the ability of the Government to predict the variables that will affect both domestic demand and international demand.

Those are the areas that I think we would have to look at to see whether or not that system is adequate to respond to all of those kinds of volatile things.

Mr. GLICKMAN. I appreciate that. I think that is an accurate comment.

Thank you, Mr. Chairman.

Mr. HUCKABY. That concludes the hearing today. Thank you, gentlemen, for being with us.

[Whereupon, at 1:55 p.m., the subcommittees were adjourned, subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement of
The Honorable Pat Roberts
Before the Joint Hearing of
The Wheat, Soybeans and Feed Grains Subcommittee
and
The Sugar, Rice and Cotton Subcommittee
June 27, 1989

I want to thank my colleagues, Mr. Glickman, Mr. Marlenee, Mr. Huckaby and Mr. Stangeland, for calling this hearing to review the crop acreage base provisions of the 1985 Food Security Act.

The crop acreage base determination provisions have generated more letters, telephone calls and personal visits from farmers in the Big First than nearly any other aspect of the current Act. Many producers believe the base provisions have been a beneficial tool relative to efforts to bringing surpluses under control. However, they all agree the current provisions are deficient in a key area.

Since the 1987 crop year, when limited cross compliance was implemented, producers have been forced to make cropping and marketing decisions based on the ASCS program provisions -- more often than not to the detriment of common sense farm management.

Sound farm management requires an efficient, rational approach to meeting the challenges agriculture faces day in-day out. To meet this goal, a producer must be flexible -- in his marketing, pest management, crop selection, etc.

Unfortunately, the reality of economics over the past few years has taken away the ability to be flexible. The fearful reality is that protecting one's crop acreage base is paramount to economic survival.

base hearing, page two

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First, today's media conscious urban and rural societies are being bombarded by messages from radical environmental, conservation and consumer groups that the U.S. food supply is unsafe, that farmers use too many chemicals and pesticides to manage their operations, and that farmers are raping the land.

On the other side, there are proven methods of conservation and integrated pest management used by producers for years -- crop rotation utilizing legumes such as alfalfa, summer fallow, alternating cropping patterns, etc. -- all methods requiring flexibility to work.

Second, one of the prime directives of the 1985 Act is that agriculture needs to become market oriented. But because most farmers are locked into cropping decisions made five to ten years ago, responding to marketing signals is very difficult. In addition, there is a strong disincentive to diversify into other program or experimental crops.

Finally, the lack of realistic flexibility sends a confusing policy message to farm country.

-- We want surpluses at reasonable levels, but plant that corn, cotton, rice, wheat, etc. if you want your base protected.

-- We want strict adherence to conservation provisions to protect the soil, but rotating your crops may cost you base -- or it may not -- we'll get back to you.

-- We want you to develop sound marketing strategies and utilize diversification to provide your income, but you better have the base if your plan includes program commodities.

base hearing, page three

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Perhaps most frustrating is the fact the '85 Act contains the remnants of a provision authored by myself and my colleague, Mr. Stenholm -- the Farm Acreage Base adjustment authority. Currently, this provision allows the Secretary to permit producers to adjust their Crop Acreage Bases by up to 10 percent of their Farm Acreage Base.

To date, the Department has refused to implement this flexibility on the general grounds that farmers would simply chase target prices, thereby increasing costs. While this may be a valid argument, it is made to the exclusion of several equally valid points supporting base flexibility previously mentioned.

Earlier this year, Mr. Stenholm and I reintroduced our legislation to address this problem. H.R. 2294 would relieve the Secretary of his discretion, and increase the permitted adjustment level to 20 percent of the Farm Acreage Base.

Congress and USDA have provided flexibility through:

- base protection for selected program and non-program crops and 0/92;
- limited base substitution for conservation compliance purposes;
- easement of cross compliance requirements for oats; and,
- corn/sorghum and oats/barley base switching.

It's time for consistency in base flexibility policies.

base hearing, page four

6/27/89

The Farm Acreage Base concept holds the most promise. Similar to the Normal Crop Acres provisions of past programs, this concept would provide needed flexibility for rational soil husbandry practices and marketing strategies, yet provide the necessary limitations to ensure responsible utilization by farmers.

There are key areas needing a closer look to make this promise a reality. Currently, the Farm Acreage Base adjustment authority does not help the "single-base" farmer. I look forward to working with my colleagues from the Corn Belt, the Cotton Belt and other areas where this is a factor.

We also must consider ways to minimize the perception, if not the reality, of the growing intrinsic value to crop specific bases. Farm land prices in the Big First and elsewhere rise and fall in direct proportion to the crop bases assigned to a specific tract.

In final form, a viable base program must -- above all else -- be consistent and predictable. The '85 Act's five year base history process radically changed the long-term management strategies developed by farmers.

Any technical adjustments, improvements, etc., made to the base provisions for the current farm bill or in the 1990 version must not leave Farm Country facing a whole new base calculation process.

STATEMENT BY
THE HONORABLE CHARLES W. STENHOLM

BEFORE THE
SUBCOMMITTEES ON WHEAT, SOYBEANS, AND FEEDGRAINS
AND
COTTON, RICE, AND SUGAR
U.S. HOUSE COMMITTEE ON AGRICULTURE

Tuesday, June 27, 1989

Mr. Chairman, I would like to associate myself with the remarks made by my good friend and distinguished colleague from Kansas who I am pleased to join here today.

I too would like to extend my appreciation for your willingness to convene today's public hearing surrounding issues that have received increased attention and discussion over the last several months. Recognizing that deliberations concerning the 1990 Farm Bill are now under way, I applaud your decision to swiftly develop a proper hearing record and allow an open discussion about how producers can best be provided a flexible and equitable system for acreage substitution -- without burdensome requirements and budget-busting outlays.

As most in the agricultural community would agree, the Food Security Act of 1985 has provided the mechanisms for dealing with some very difficult situations. Granted, it has not solved all the problems facing American agriculture today -- but there have been noticeable gains and improvements in a variety of areas.

Few should disagree that a viable, stable agricultural economy depends on farm country's enhanced ability to use common sense

management and marketing strategies independent of commodity program benefits. In other words, producers should be provided the type of "flexibility" that allows production decisions to be made in response to ever changing circumstances that mother nature, markets, and Congress can create.

Regretfully, under current situations, producers have little incentive to move away from "farming the program" since there are no economic alternatives being provided. Therefore, I along with Mr. Roberts -- and several others -- have sought to generate discussion and thought surrounding the apparent distortions among commodities (in the relationship between target prices and production costs), and the need to re-assess the rigidity of program crop participation and resulting "base lock," as some have referred.

Producer planting "flexibility" seems to be a term meaning different things to different people. Understandably, concerns have been raised about over-expansion of production and the subsequent depression of non-program crop prices. In addition, there are questions involving the extent to which income gains from larger plantings of program and other allowable crops offset declines in deficiency payments mandated by budget constraints. Certainly, these concerns and questions need to be adequately addressed.

Testimony will be presented today suggesting that "planting flexibility rules be equitable to both program crop producers and to nonprogram crop producers." I couldn't agree more!

Mr. Chairman, in recognition of the many witnesses scheduled to appear before you today, let me conclude my remarks by expressing my appreciation to you once again and offer my complete assistance in developing an effective, budget-responsible and equitable production acreage base adjustment scheme.

Thank you!

Statement by
John Campbell, Deputy Under Secretary for
International Affairs and Commodity Programs
before the
Subcommittees on Wheat, Soybeans and Feed Grains
and
Sugar, Cotton and Rice
Committee on Agriculture
House of Representatives
June 27, 1989

Messrs. Chairmen and Members of the Subcommittees, the Department is pleased to have the opportunity to discuss farm acreage bases and the challenge of providing producers with increased planting flexibility.

This morning I would like to review the history of planting flexibility and current proposals to increase planting flexibility. Finally, I would like to share the Administration's views toward providing producers with increased planting flexibility in the next farm bill.

History of Planting Flexibility and Inflexibility

The Agricultural Adjustment Act of 1938 set up a system of mandatory acreage allotments and production controls with which producers were required to comply in order to receive benefits under certain agricultural programs. The acreage allotment system established a rigid method of formulating base acreages that restrained planting flexibility. The acreage allotment system, because of its use of historical plantings, made it costly for farmers to change their crop mix to respond to market signals or new technologies. Farmers were also reluctant to plant their allotment to nonprogram crops, since doing so could lead to a future reduction or loss of allotment acreage and program benefits.

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The very arguments made against acreage allotments 30 years ago are being made against base acres today. Criticism of allotment and mandatory controls grew in the 1950s and 1960s because of the restrictions they placed on farmers' planting decisions. In 1964, for example, wheat programs became voluntary after producers voted out mandatory programs. The Agricultural Act of 1970 (the 1970 Act) introduced the set-aside concept in an effort to give farmers more freedom in choosing which crops to plant. The 1970 Act required participating farmers to maintain set-aside acres and a conservation base. Once the set-aside and conserving base requirement was satisfied, there were few restrictions on what a farmer could plant on the remaining cropland acreage.

During the late 1960s and early 1970s producers with either a feed grain base or a wheat allotment could plant either feed grains or wheat after meeting set-aside and conservation base requirements. Wheat and feed grains were interchangeable with respect to preserving base and allotment history. Soybeans were allowed to substitute for wheat and feed grains in some years.

Government payments to producers did not depend on the amount of acreage planted to the program crop; i.e., payments were fixed no matter how much, if any, a producer planted to the program crop. Said another way, payments were decoupled from planting decisions and market prices. But producers had to plant at least 90 percent of their allotment to some crop, such as wheat, feed grains, or substitute crops in order to preserve their allotment. Decoupling, as envisioned by some today, has already been used. The name is new, but the practice is not.

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Programs for cotton under the 1970 and 1973 Acts were similar to those for feed grains and wheat, with one important exception. Whereas grain programs allowed nearly full substitution of other crops to preserve base or allotment history, cotton producers were required to plant at least 90 percent of the farm's allotment to cotton. Otherwise, a farmer would not receive the full direct payment and could suffer a reduction in the allotment.

The Agricultural and Consumer Protection Act of 1973 (the 1973 Act) eliminated the conservation base requirement and gave farmers even more flexibility in production decisions. The 1973 Act established the now-familiar target price and deficiency payment system. Participants could receive payments with virtually no restrictions on acreage plantings, except for meeting any announced set-aside requirements. The list of substitution crops was expanded to include virtually every crop except those with quotas, such as peanuts and tobacco. There was no requirement that the program crop be planted in order to receive deficiency payments.

The use of fixed acreage allotments was abandoned with the Food and Agriculture Act of 1977 (the 1977 Act). The 1977 Act determined that deficiency payments and production controls on historical allotments were no longer adequate in light of changes in regional planting patterns. The "current plantings" concept was introduced whereby the set-aside was based on a percentage of the current year's plantings; previously set-asides were based on a percentage of allotment.

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Deficiency payments were based on the acres of the program crop planted, but there were no restrictions on the program acres that could be planted. The 1977 Act promoted flexibility in crop plantings, but producers had to plant the crops to collect payments. This change was in part a response to criticism that a producer could receive payments for a crop that was not grown on the farm.

The 1977 Act also provided discretionary authority for the establishment of a normal crop acreage (NCA) for each farm as a new way of operating set-aside programs. The NCA authority was implemented for the 1978 through 1981 crops and farm NCA's were based upon 1977 plantings and included 14 crops (barley, corn, dry edible beans, flax, oats, rice, rye, sorghum, soybeans, sugar beets, sugarcane, sunflowers, upland cotton and wheat). Additional crops could be added to the farm NCA at the request of State ASC committees. Other crops added in some States were potatoes, safflower, sweet corn, peas, popcorn and millet. Program compliance required that the total planted acreage of NCA crops plus any set-aside acreage could not exceed the farm NCA.

The NCA authority as operated under the 1977 Act illustrates both the negative and positive aspects of providing producers with planting flexibility. Deficiency payments depended upon the acres of the program crop planted. Target prices and not market prices could dictate planting decisions. Producers had an incentive to maximize plantings of program crops at the expense of nonprogram crops. This encouraged producers to increase plantings of program crops even with a set-aside in place. Producers planted acreage

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to the program crop with the highest target prices relative to the costs of production, increasing Government outlays as farm prices dropped.

On the other hand, the NCA system did not lock in a historic production pattern in favor of program crops because producers did not have to worry about loss of program crop base. Producers also had the flexibility to switch plantings between the program crops.

The Agriculture and Food Act of 1981 (the 1981 Act) established the concept of acreage bases as we know them today. A history was established for each program crop based on recent plantings (2 years) and the base was recomputed each year to reflect the most recent cropping patterns. The base concept allowed programs to be implemented that were specifically designed for each individual program crop. But, it also reestablished the link between future program benefits and current plantings that had been severed by the 1977 Act, thereby removing the flexibility of farmers' planting decisions among program crops. However, the 1981 Act allowed base acreage to be maintained if underplanted acreage was devoted to an acceptable nonprogram crop, such as soybeans.

The Food Security Act of 1985 (the 1985 Act) continued the concept of crop acreage bases (CAB) but expanded the formula for calculating wheat and feed grain bases to include 5 years of planting history. Soybeans were no longer considered a nonprogram crop for base protection purposes.

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Upland cotton and rice CABs are generally calculated by the same formula as wheat and feed grains. However, on farms with no cotton or rice planted acreage in at least one of the 5 years, such years with no plantings are not used to calculate the CAB. When these zero years are dropped, the resulting base calculation cannot be more than the preceding 2-year average of plantings, including zero years. This formula enables cotton or rice producers to build a full base in only 2 years. ELS cotton bases are calculated on a previous 3-year average of planted acreage.

To simplify and standardize all program commodities equally, the Administration would support CABs for rice and cotton to be based on a uniform formula using 5 years of history--the same formula presently being used for wheat and feed grains.

Market conditions during the period the provisions of the 1985 Act have been in effect have caused producers to enroll a relatively large percentage of acreage in the annual programs because of the large gap between target prices and farm prices that has existed in most years. This has tended to lock in production patterns that favor program crops at the expense of nonprogram crops. For example, even though market returns for soybeans in some years have been above those for grains and cotton, the farm programs have discouraged expansion of soybean production. If a producer plants soybeans on crop acreage base, he foregoes deficiency payments and planting history for the program crop for that year.

Current Provisions and Proposals Relating to Planting Flexibility

The 1985 Act and other subsequent amendments to the Agricultural Act of 1949 (the 1949 Act) have reduced planting flexibility in many ways. Given the planting constraints in the present program, however, the current law also has several provisions which have promoted planting flexibility. I will assess the benefits and drawbacks of each one, including those that have not been implemented. There are also several bills pending before the Committees on planting flexibility which I will discuss later in my testimony.

CURRENT PROVISIONS

1. Ten-Percent Farm Base (FAB) Adjustment: The 1985 Act amended the 1949 Act to establish the FAB as the sum of the CABs, recent soybean plantings and acreage normally devoted to conserving uses. The Secretary is authorized, although this discretion has not been implemented, to allow a producer to increase the CAB of a program crop by up to 10 percent of the FAB if a corresponding acreage decrease occurs in one or more of another CAB on the farm. This provision would not increase the planting of nonprogram crops, but only allows producers to switch plantings among program crops and remain eligible for program benefits.

2. Protection of Base Under the 0/92 and 50/92 Provisions: Under the 0/92 and 50/92 provisions, producers may devote a portion of the permitted acreage to conserving uses, protect their bases and receive deficiency payments on 92 percent of permitted acreage. The 50/92 provision was introduced with the 1985 Act so as not to require producers to plant program crops that were already in surplus in order to earn deficiency payments and protect bases. Subsequent legislation created the 0/92 provision for wheat and feed grains. The provisions offer producers the flexibility of planting the program crop or idling program acreage while protecting most of their Government benefits.

3. Planting Nonprogram Crops on 0/92, 50/92 and Acreage Conservation Reserve (ACR): The Secretary has the authority to permit producers to plant alternative crops on 0/92 and 50/92 acreages and ACR. This provision is appealing to producers because they can plant an alternative crop, protect their base and receive guaranteed minimum deficiency payments. It is particularly appealing to producers to plant alternative crops on ACR because they maintain all benefits, plant additional income-producing crops and do not have to idle any land.

The Department has not implemented this provision because it has been determined that sufficient acreage was available for the production of nonprogram crops without authorizing any additional acreage.

Planting nonprogram crops on 0/92, 50/92 or ACR while providing deficiency payment coverage is a very controversial issue. You may remember that, as originally passed, the 1985 Act required the Secretary to permit producers to plant any nonprogram crop on 50/92 acreage. Three months following enactment of the 1985 Act, Congress amended this provision to permit plantings of specified alternative crops only under certain conditions at the discretion of the Secretary. The Secretary must determine that such production is needed to provide an adequate supply of such commodities, is not likely to increase the cost of the price support program and will not affect farm income adversely.

The Department will be analyzing common program provisions for the 1990 crops which we hope to announce in the near future. The issue of permitting certain nonprogram crops to be planted on 0/92 and 50/92 acreage will again be fully considered for 1990.

4. Crop Acreage Base Protection: Section 504 of the 1949 Act requires the Secretary to allow producers to plant alternative crops on 20 percent of a farm's permitted acreage for 1989. This provision enables producers to plant alternative crops, other than program crops or soybeans, on a portion of the base--giving them the planting flexibility they need--and also allows them to protect their base. The provision is not as attractive as the provision I

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just previously mentioned because producers will lose deficiency payments on the acreage that is devoted to the alternative crops. This provision expires after the 1989 crop.

5. Soybean/Sunflower Planting on Permitted Acreage: The Disaster Assistance Act of 1988 (the 1988 Act) partially addressed the base-related barriers to planting soybeans and sunflowers. The 1988 Act amended the 1949 Act to allow plantings of soybeans and sunflowers on 10 to 25 percent of permitted acreage for the major program crops in 1989 and 1990 without any loss of base. Such plantings may be permitted as long as soybean prices are estimated to be at or above 115 percent of the loan rate for the previous year.

For the 1989 crop, farmers requested authorization to plant 3.5 million acres of soybeans and 353 thousand acres of sunflowers under the 10/25 program. The Secretary has authorized 80 percent of the 3.5 million acres to be planted.

6. Oats Base Substitution: The Disaster Assistance Act of 1988 gave producers the option of designating any portion of the farm acreage base (excluding any soybean acreage) as oats acreage base. This provision is designed to encourage the planting of oats.

7. Prevented Planting or Failed Acreage: If a natural disaster or similar condition beyond the control of the producer prevented the planting of a program crop, or substantially destroyed the crop before harvest, the producer may subsequently plant any crop on the farm. Deficiency payments are made on the original program crop on failed planting and base history is protected under both prevented planting and failed acreage.

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8. Haying and Grazing: For 1989 all producers are authorized to graze their idled acreage except for a 5-consecutive-month period, but haying of this land is not permitted unless the State Agricultural Stabilization and Conservation committee determines that haying will not have an adverse effect in that State. The haying and grazing provisions gives producers additional flexibility by allowing them to receive some benefits from the idled acreage.

9. Limited Cross-Compliance: Implementing limited cross-compliance would require producers who participate in the commodity program for one crop to plant within the crop acreage base of other program crops on the same farm. Although this provision reduces planting flexibility somewhat, it has been imposed for most crops to reduce the potential for base-building.

LEGISLATIVE INITIATIVES

1. H.R. 2294, introduced by Mr. Stenholm and Mr. Roberts, provides that the Secretary shall implement a 20-percent FAB adjustment for the 1990 crops.

This bill would remove the Secretary's discretion to permit or not permit this adjustment for selected crops, and would increase the adjustment percentage to 20 percent of FAB, a doubling of the current discretionary authority. Under the 1985 Act, the Secretary already has the authority to allow base adjustments greater than 10 percent.

The impetus to change cropping patterns would likely be based on the returns relative to target prices and would not be responsive to market prices.

The outlay increase from this bill can be conservatively placed at \$250 million to \$350 million each fiscal year due to increased program payments to corn, cotton and rice producers.

The Department is analyzing whether the 10-percent FAB adjustment should be implemented for the 1990 crops.

2. H.R. 873, introduced by Mr. Slattery, extends provisions of section 504 of the 1949 Act for 1990 with some modifications. Producers may plant all (instead of the 20-percent limitation) of their permitted acreage to soybeans, oats or any other crop for which no acreage limitation, production control, deficiency payment or price support loan is in effect if notification of such plantings is made 30 days before the planting of the crop. Deficiency payments would continue to be earned with respect to this acreage.

3. S. 606, introduced by Mr. Bond, amends section 504 for the 1989 and 1990 crops. It is similar to H.R. 873 in that producers are allowed to plant all of their permitted acreage to nonprogram crops except the nonprogram crops are limited to kenaf, crambe, guayule, high erucic rapeseed, milkweed and meadow foam. The Secretary may also permit additional alternative income-producing crops.

4. S. 1063, introduced by Mr. Lugar, provides for a sense of Congress that changes in the acreage base provisions of the 1949 Act should be made to provide greater planting flexibility decisions without adversely affecting future crop acreage base calculations.

Administration's Views Toward Planting Flexibility

The historical perspective of planting flexibility, coupled with the constraints associated with today's programs, provide a framework for discussing the issue of planting flexibility in context of the 1990 Farm Bill.

The Department favors offering producers planting flexibility. But we must stop and ask ourselves what kind of flexibility we want. In the simplest terms, we want producers to make their cropping decisions in response to market forces. The marketplace should be the driving force that encourages or discourages the planting of specific crops. Today's producers are more likely to respond to program incentives, not because they want to, but because the farm programs provide no economic alternatives.

In the many ways already noted, the 1985 Act penalizes the producers who respond to market forces. But the rigidities were put into the 1985 Act for specific reasons. For example, it is now easier to design farm programs to match supply with demand and control Government outlays for individual program crops. These rigidities have also assured that payments are directed to those producers who plant the program crop or intend to plant the program crop.

While most of the agricultural community is in agreement that providing planting flexibility is beneficial, we must be aware that there could be costs associated with flexibility. These costs include greater Government expenditures, inability to impact short-run demand, lower income to producers of nonprogram crops and providing payments on acreage that is unlikely to return to the production of program crops.

The triple base concept is a step in the right direction. When an acreage reduction program is in effect, the triple base divides acreage into three categories: (1) permitted acreage on which deficiency payments are made, (2) permitted acreage on which no program benefits are received, and (3) acreage which is idled. The permitted acreage no longer eligible for payments or loans may be planted to any program crop or nonprogram crops. Alternative crops would compete with each other and with the original program crop based only on market returns. The acreage would be planted to crops on the basis of market price expectations rather than on the basis of program benefits.

Given expected market prices, it is likely that wheat, soybean and sunflower acreage would increase at the expense of corn and sorghum acreage. Acreage of other nonprogram crops could increase slightly as well.

Criteria for Increasing Producer Planting Flexibility

The following guidelines may be useful as the Committees consider flexibility for the 1990 Farm Bill.

- o Increased flexibility should mean greater latitude to respond to market signals, not to subsidy benefits. Producers should not be given a greater incentive to "farm" the programs.
- o If subsidies are hooked to plantings and plantings are freed up, planting flexibility should be accompanied by a realignment of target prices. The target price benefit is not equivalent across commodity lines relative to costs of production. Producers will base their cropping decisions on the target price rather than market returns.
- o Planting flexibility should address the soybean issue. Current soybean prices are competitive with program crop prices, but soybeans cannot compete with program crops in most areas.
- o Providing flexibility must not "bust" the budget or increase Government exposure. Planting flexibility is effective in the long run when income is derived from the market. A continuation of high Government outlays is counterproductive to the concept of flexibility.

- o Planting flexibility rules must be equitable to both program crop producers and to nonprogram crop producers. We must strike a balance between the benefits of permitting program participants to plant nonprogram crops with the interests of the traditional nonprogram crop producers.
- o Program payments should be limited to those producers who plant or who would have otherwise planted program crops if not for the increased planting flexibility. We do not want to begin to make payments to a new sector of producers.
- o Providing producers with increased flexibility should not jeopardize the successes of the conservation provisions of the 1985 Farm Bill.

Conclusion

Two major impacts of farm programs have been the allocation of acreage and the allocation of payments. Methods for allocating acreage range from rigid, such as mandatory acreage allotments, to loose, such as the Normal Crop Acreage concept. The 1985 Act made significant progress towards a more market-oriented system on many counts. Under this legislation, markets have expanded, both at home and abroad; farm prices and income have increased; and program outlays have begun to decline. It would be beneficial to continue to move in this direction by promoting increased planting flexibility.

The mechanisms for allocating payments have varied widely over the years. Payments have been based on a fixed historical basis, on a recent history of plantings basis and on current year plantings bases. Each has its costs and benefits.

In conclusion, the Department appreciates the opportunity to appear before you at this early juncture in the debate of the 1990 farm bill. We look forward to working with the Committees in the development of new legislation. That completes my testimony, I will be glad to respond to any questions.

ABEL, DAFT & EARLEY1410 KING STREET
ALEXANDRIA, VIRGINIA 22314Presentation

by

Martin E. Abel
President
Abel, Daft & Earley

to

Wheat, Soybeans and Feed Grains Subcommittee
Cotton, Rice and Sugar Subcommittee
Committee on Agriculture
U.S. House of Representatives
June 27, 1989**WAYS TO ACHIEVE GREATER PLANTING FLEXIBILITY**

I appreciate the opportunity to discuss with you today how policies for price-support crops might be modified to achieve greater planting and production flexibility and to make U.S. agriculture more responsive to market price signals and competitive forces operating in both the domestic and world markets.

Let me begin by reviewing experience under the Food Security Act of 1985. The 1985 Act deserves high marks for dealing with the very difficult situation that existed in American agriculture at the time it was passed: namely, one of depressed farm income, a serious farm debt situation, sharply lower exports, and huge stocks of grains, soybeans and cotton. During the first few years of the 1985 Act, all of these negative features of the U.S. agricultural situation were turned around and in a very decisive way. The recovery of agriculture involved record expenditures on commodity programs, but that was anticipated when the 1985 Act was passed.

Current legislation was designed to deal with a situation of large surpluses in a budget environment where large outlays on commodity programs were possible. But two things have changed. First, world demand for grains, oilseeds and cotton is now more robust and large stocks are no longer with us. In fact, we are now faced with the issue for some commodities of how the United States can produce enough to prevent the recent gains in exports from being eroded and how to reverse the declining U.S. share of world soybean and soybean product trade. Second, pressure to reduce the budget deficit has intensified and it is likely that outlays on commodity programs will have to be reduced further in the years ahead, although the size of these reductions is uncertain at this time.

The 1985 Act is not well designed to meet growing world demand while at the same time reducing outlays on commodity programs. First, outlays are directly related to the level of allowable production. As a consequence, the lower acreage idling requirements (ARPs) that are needed to raise output also increase deficiency payment exposure. Second,

the 1985 Act, probably unintentionally, introduced some serious distortions among commodities in the relationship between target prices and production costs. As a result, farmers reduced plantings of some crops such as soybeans, barley, and oats in favor of the more generously supported crops. These distortions are not eliminated by further cuts in target prices that are uniform across commodities unless they are so large as to make program participation unattractive. These aspects of current policy have been described in a report, An Analysis of Alternative Policies for Grains and Cotton, prepared by our firm.

That report also examined the implications for commodity program costs and production flexibility of three approaches to reducing budget exposure -- further uniform reductions in target prices, realigning target prices to make them more uniformly proportional to production costs but not tying target prices to costs in future years, and a payment acre or triple base approach, as some have called it, to limit deficiency payments to a portion of allowable plantings.

The first option, further uniform cuts in target prices, would reduce outlays, but would not reduce distortions among commodities, would not allow production to increase significantly, and would not increase production flexibility.

Realigning target prices would also save money. And it would provide more production flexibility than just lowering target prices, leading to some increase in plantings.

The third approach -- payment acres or triple base -- would move even further in allowing flexibility of production while providing the opportunity to make needed savings in outlays on commodity programs. This approach retains all the familiar features of commodity policy and, in that sense, does not represent a radical departure from what we have had in the past. It would work as follows:

- Base acreage would be retained for each program crop.
- USDA would set permitted plantings for each crop in terms of anticipated supply-demand conditions and competitive price objectives, continuing to use ARP's when needed.
- Farmers would receive deficiency payments as a percentage of either permitted or base acres. That percentage could vary among crops.
- Farmers would be allowed to plant any program or other allowable crops on the difference between permitted and payment acres. For price-support crops, production on these acres would be eligible for loans, but not for deficiency payments.

The advantages of the payment acre approach in a period of budget austerity are as follows:

- The historic linkage between commodity program costs and permitted acreage would be broken, i.e., the entitlement nature of commodity programs would be restricted. Production could be expanded to meet domestic and export demand without inflating program costs.

- The ability to have payment acre percentages vary among crops could reduce if not eliminate existing distortions in target prices relative to production costs, i.e., crops such as soybeans, barley, and oats could become more competitive relative to corn, sorghum, and rice.
- Market prices would drive planting decisions on the difference between payment and permitted acres, providing more flexibility in producer decisions.
- Farmers' incomes would continue to be protected through deficiency payments on part of their production. They would gain certain other advantages, as well, including fuller use of land resources, achieving better-balanced crop rotations, having the opportunity to trade off greater use of land for less use of fertilizers and pesticides, and be better able to increase returns from crops that have strong demand and price prospects. All these cost or income advantages help provide an offset to lower government outlays on deficiency payments.
- Budget savings could be achieved without necessarily having further cuts in target prices although some combination of reduction in the target prices and use of payment acres is certainly a possibility.

There are several aspects of the payment acre or triple base approach that still need to be analyzed before one can make a fully informed judgment about its desirability.

One involves the extent to which income gains from larger plantings of program and other allowable crops offset declines in deficiency payments mandated by budget considerations. Related to this point is the understandable fear of some producers that this approach will result in over-expanding production and depressing prices of non-program crops. The adverse impact on non-program crops could be limited in several ways. First, it is envisioned that the Secretary would set production goals for program crops consistent with desired supply-demand conditions -- the same approach that has been used in the past -- and ARP's would continue to be used where appropriate. This limits the amount of extra production that would be allowed. Second, the Secretary could have the authority, as he now has, to limit which crops would be planted on the difference between allowable and payment acres and this authority could direct him to avoid disrupting markets for non-program crops. Third, the payment acre or triple base approach could be phased in gradually, and this could help avoid serious production problems among crops.

I would also like to point out that other approaches to saving money on commodity programs and expanding output might also be disruptive for non-program crops. For example, if the present policy of reductions in target prices were continued, at some point program participation rates would fall. As more farmers stayed out of these programs, they would be free to plant any crop they wanted, including non-program crops.

A second feature of the payment acre approach that needs further analysis is the extent to which it reduces average per unit costs. Cost savings could arise from a combination of using land and machinery more fully and from having more production flexibility that allowed producers to follow better crop rotations. There have been reports, for example, that the restrictions current policy places on soybean production have moved farmers away from desired corn-soybean rotations and that this has reduced yields and required added use of some inputs, both of which have raised unit costs. To the extent this is true, policies that allowed producers to follow more desired rotations would reduce per unit costs.

Finally, policies that allow greater production flexibility could have beneficial environmental effects, and these too need to be examined. Improved crop rotations could reduce soil erosion, a significant problem in some areas. Furthermore, they could result in less groundwater pollution if they decreased the need for pesticides and nitrogen fertilizer use as a result of a higher proportion of acreage being planted to leguminous crops such as soybeans, to hay and pasture, and to other crops that do not require as much nitrogen per acre as current cropping patterns.

STATEMENT ON IMPACTS OF PROPOSALS
TO PROVIDE FLEXIBILITY IN PLANTING
BEFORE U.S. HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON WHEAT, SOYBEANS AND FEED GRAINS;
SUBCOMMITTEE ON COTTON, RICE AND SUGAR

BY

DR. RONALD D. KNUTSON
AGRICULTURAL AND FOOD POLICY CENTER
TEXAS A&M UNIVERSITY SYSTEM

The purpose of my statement is to present the results from research on proposals that provide farmers flexibility in crops produced while reducing the overall level of farm program payments.

The issue is analyzed in two steps:

- An evaluation of the relative level of government payments across commodities,
- An evaluation of a specific flexible base proposal on representative Texas crop farms.

Relative Farm Program Benefits

A key issue in evaluating a flexible base proposal involves the current distribution of farm program benefits in terms of target prices and loan rates. The price and income support provisions, as implemented, impact the crops that are currently produced, as well as those which would be produced under a flexible base. Therefore, an initial examination of the relative benefits across major program crops is important to analyzing the flexible base issue. Our basic criteria for evaluating the relative benefits was the relationship between costs of production and farmer receipts.

This analysis was conducted with and without consideration of the percentage differences in the level of set aside required for compliance with the acreage reduction programs. Since farmers do not receive payments on set aside acres, higher acreage reduction requirements result in lower effective target prices. Our major conclusions from this analysis were:

- While differences in the level of farm program benefits exist across commodities, there is no consistent pattern of benefits.

- With or without consideration of differences in acreage reduction requirements, wheat received the largest benefits relative to variable or cash costs (figures 1 and 2) while rice received the largest share of the benefits relative to total economic costs (figures 3 and 4). Figures 1 and 2 use projected costs from FAPRI.
- Loan rates relative to the variable or cash cost of production were substantially higher for soybeans than for the other commodities (figure 5). This is the particular case for soybeans where the loan rate bears the burden of both price and income support.
- The relatively small differences across commodities in the relationship of target prices to costs speak well for the performance of the political process in setting target prices.

Farm Level Impacts of Flexible Base

This section reports our analyses of the impact of a 20 percent reduced payment, flexible base program relative to a continuation of the 1985 Food Security Act, with target prices frozen at the 1990 level through 1993. Under the flexible base program analyzed, it was assumed that deficiency payments would be paid on only 80 percent of the permitted acres, however, farmers would be eligible for the price support loan on all program crops harvested. Crop prices and farm policy variables for this analysis were taken from the FAPRI flexible base study.

Our representative Texas crop farms had the option of either holding flexible acres idle (IDLE), maintaining the same crop mix and acres planted (SAME), or planting all flexible acres to the most profitable crop among those currently grown (RETURNS). The farms were restricted to crops currently grown on the farm because our analysis indicated that consistently more profitable alternatives were not feasible. The major conclusions drawn from this analysis were:

- The farms were consistently worse off under the flexible base policy than under a continuation of the current program. This is illustrated in figures 6 and 7 for the Coastal Bend cotton and sorghum farm, and for the Northern High Plains wheat and sorghum farm. Only one of six representative farms analyzed approached the level of returns from the flexible base which existed under the current program.

- There would be little or no incentive to idle the additional land on which no payments are received (figures 6 and 7).
- Switching acreage planted among the existing crops would generate higher returns than either idling land or maintaining the same cropping patterns. As a result, production regions with more cropping alternatives would tend to benefit more from a flexible base program. Implementing a flexible base strategy on a short-term basis could provide farmers a means of updating current farm program bases.

General Conclusions

The following general conclusions may be drawn from our studies of the flexible base issue:

- A flexible base program would significantly reduce producer returns on farms that have few cropping options. Flexibility in planting alternative crops and access to the price support loan program for all production would allow some, but not total recovery of lost government payments.
- Switching crops produced on farms would likely occur, however, we cannot predict the magnitude. Due to specialization and economies of size, we suspect that there will not be much switching to crops not currently being produced in the farming operation.
- A flexible base strategy would only partially solve the imbalance that exists between corn and soybeans. The root of this problem is that corn has a target price and soybeans do not. As a result of the loan rate for soybeans bearing the burden of both price and income support, U.S. soybeans have, at times, been priced out of the world market.
- Many Texas farms, particularly in cotton and wheat, are already having problems generating a reasonable return. A cut in government support will materially reduce their chance of survival and runs the risk of precipitating another farm crisis.

Figure 1. Relative Benefits:

Target Price to Variable Costs, 1974-94.

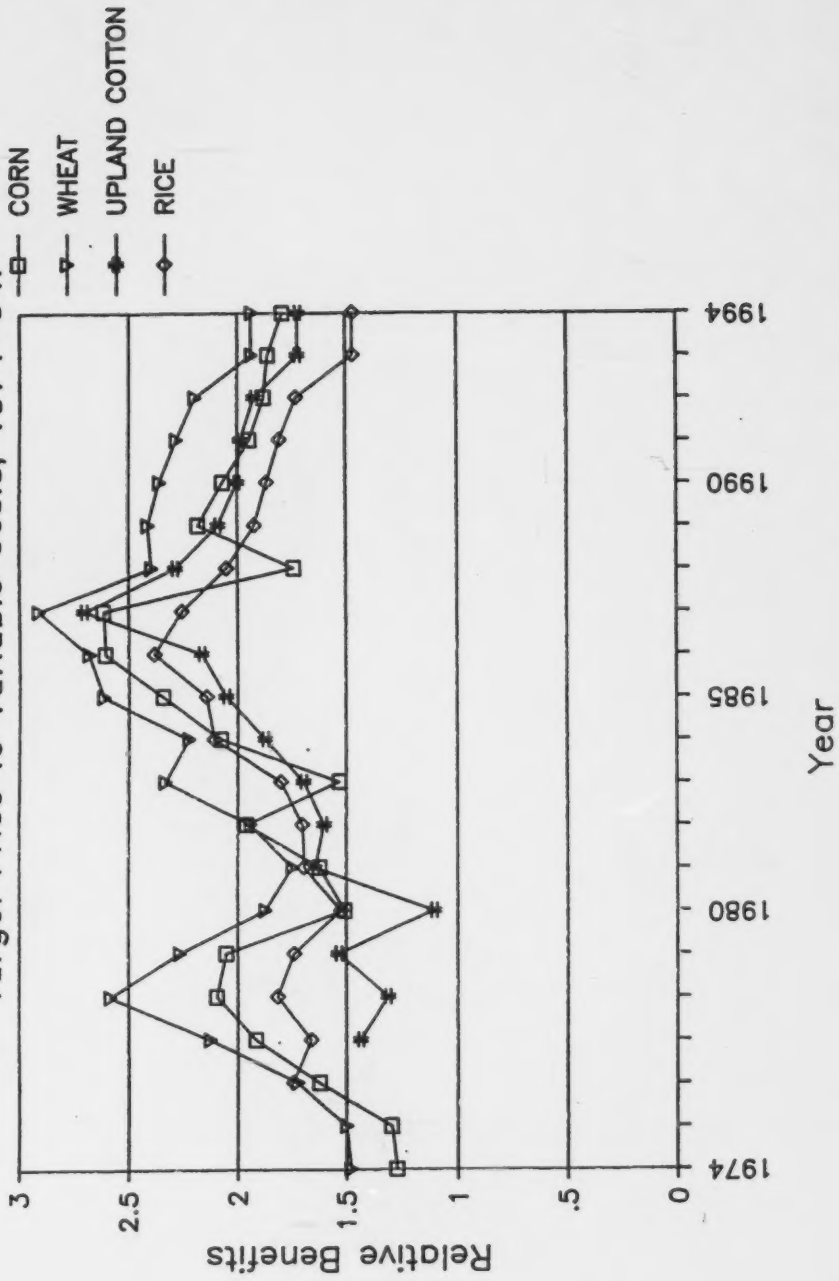


Figure 2. Relative Benefits Considering ARP

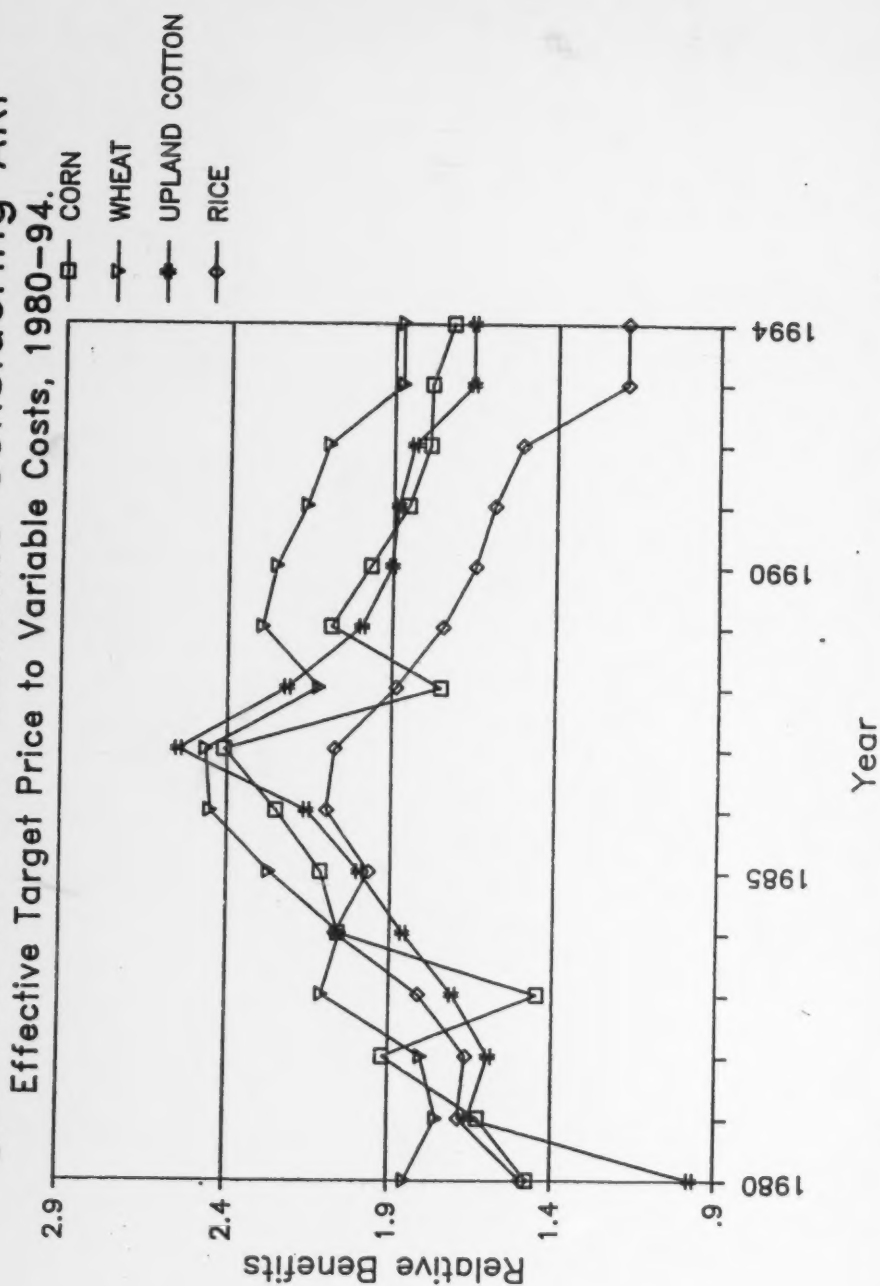


Figure 3. Relative Benefits:

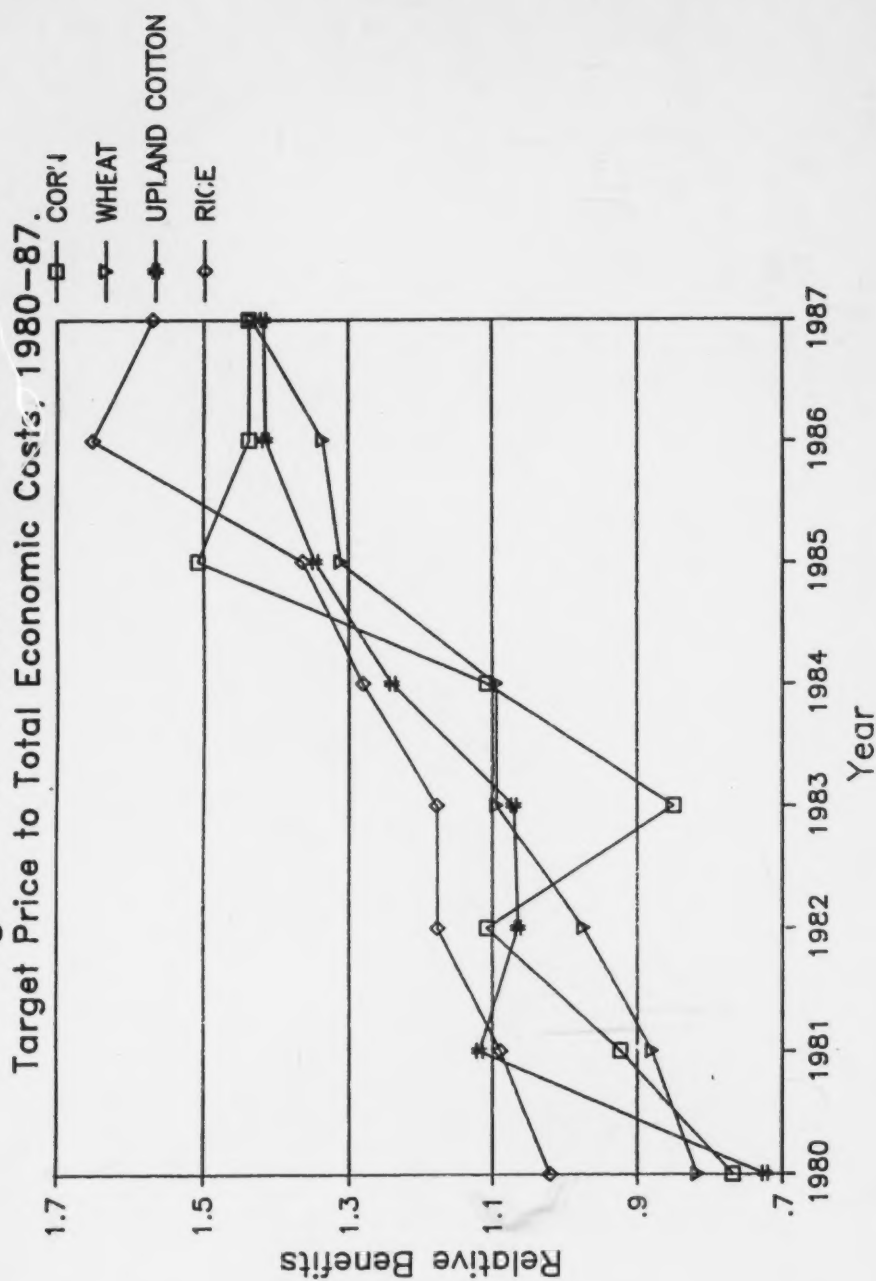


Figure 4. Relative Benefits Considering ARP

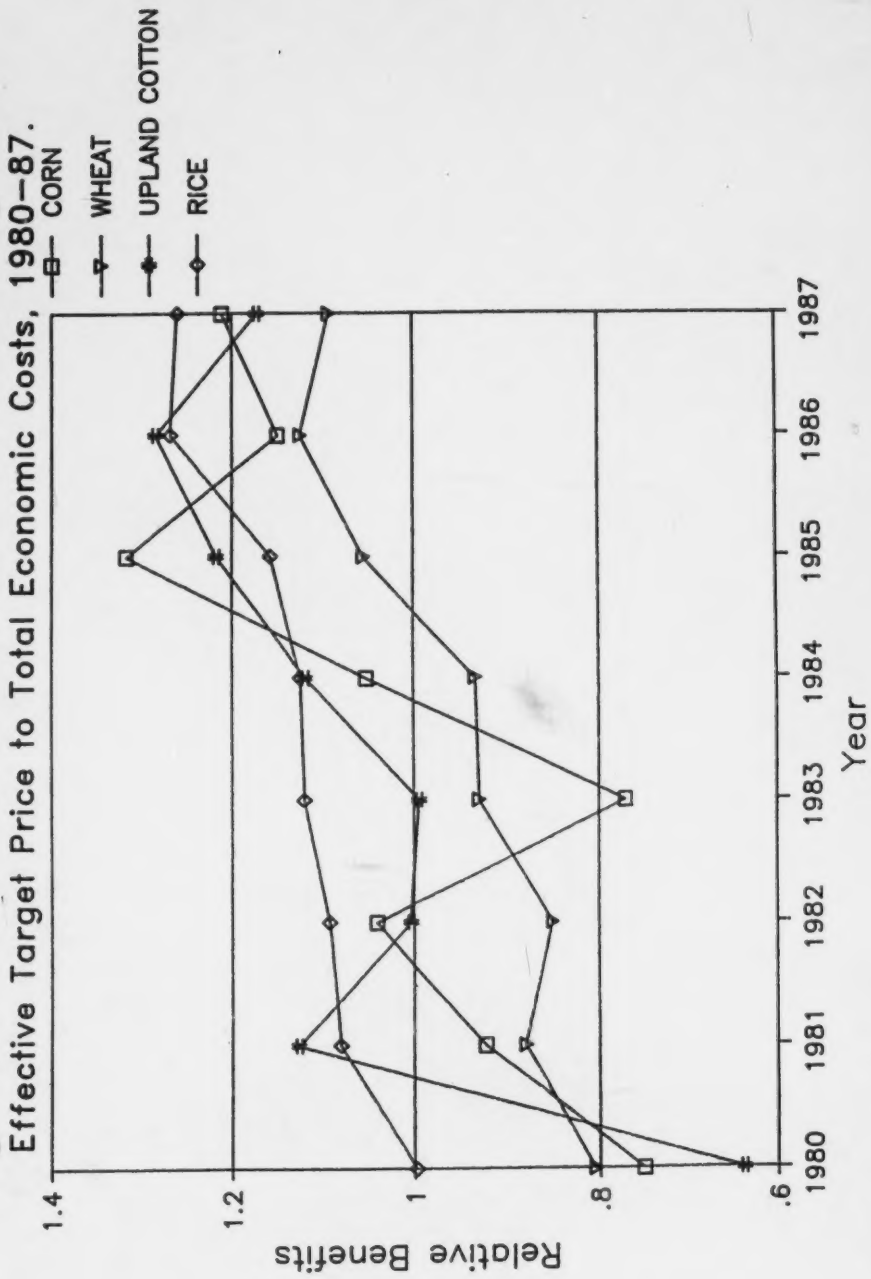


Figure 5. Relative Benefits:
Loan Rate to Variable Costs, 1974-94.

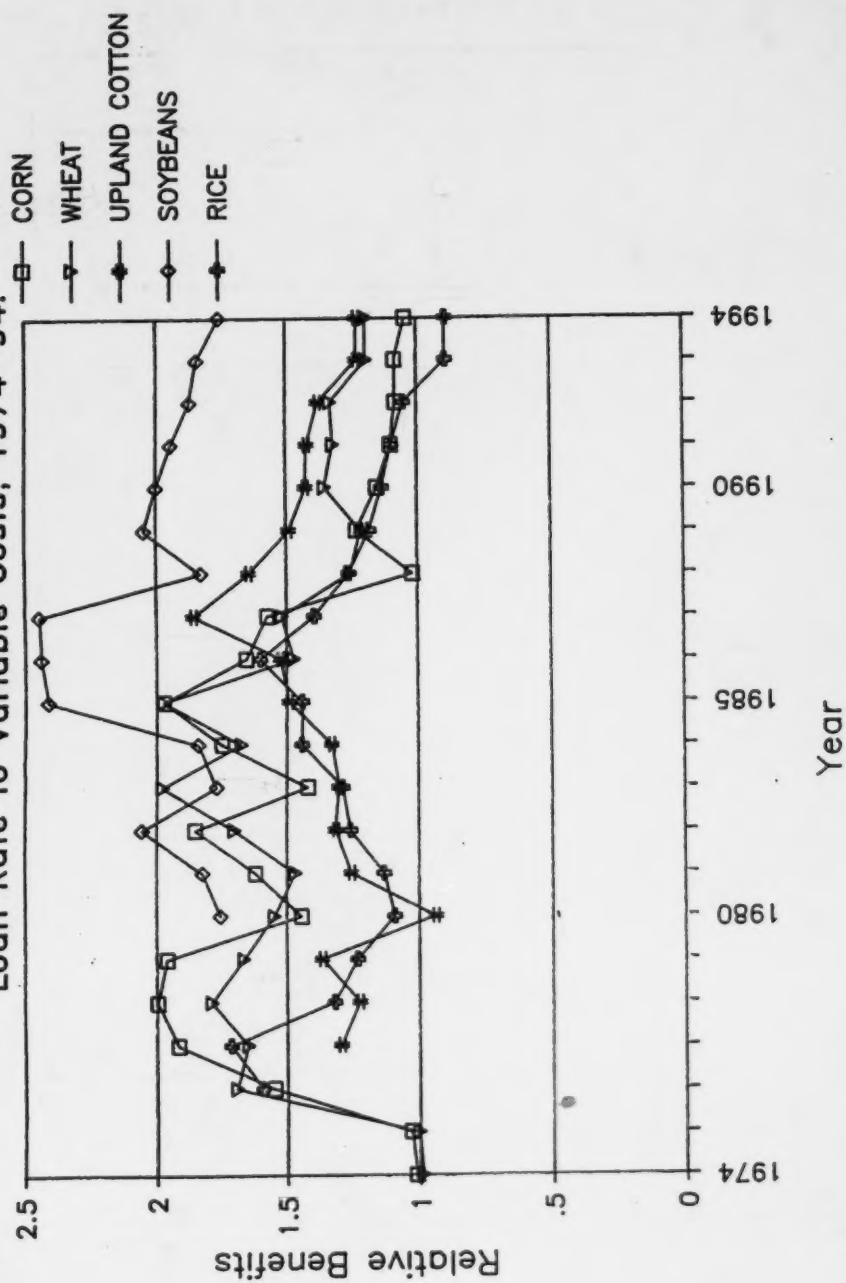


Figure 6. Probability of Earning 5% Return
on Net Worth For Coastal Bend
Typical Farms

Comparisons of Base Policy to Flexible Base Options

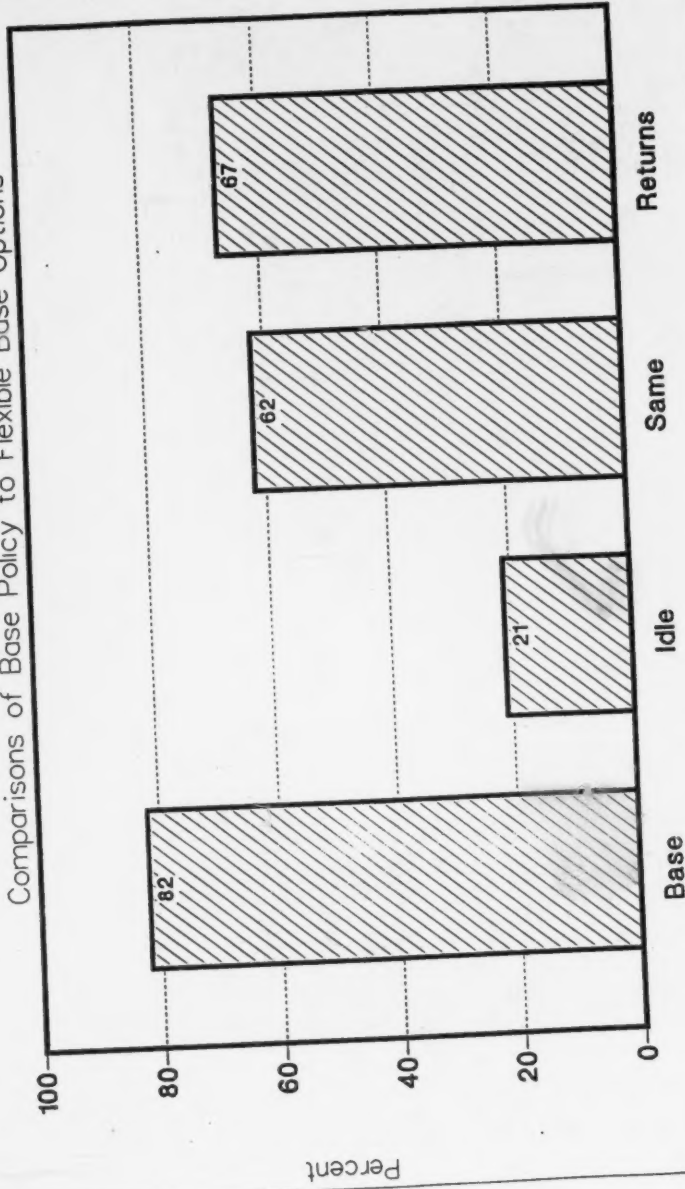
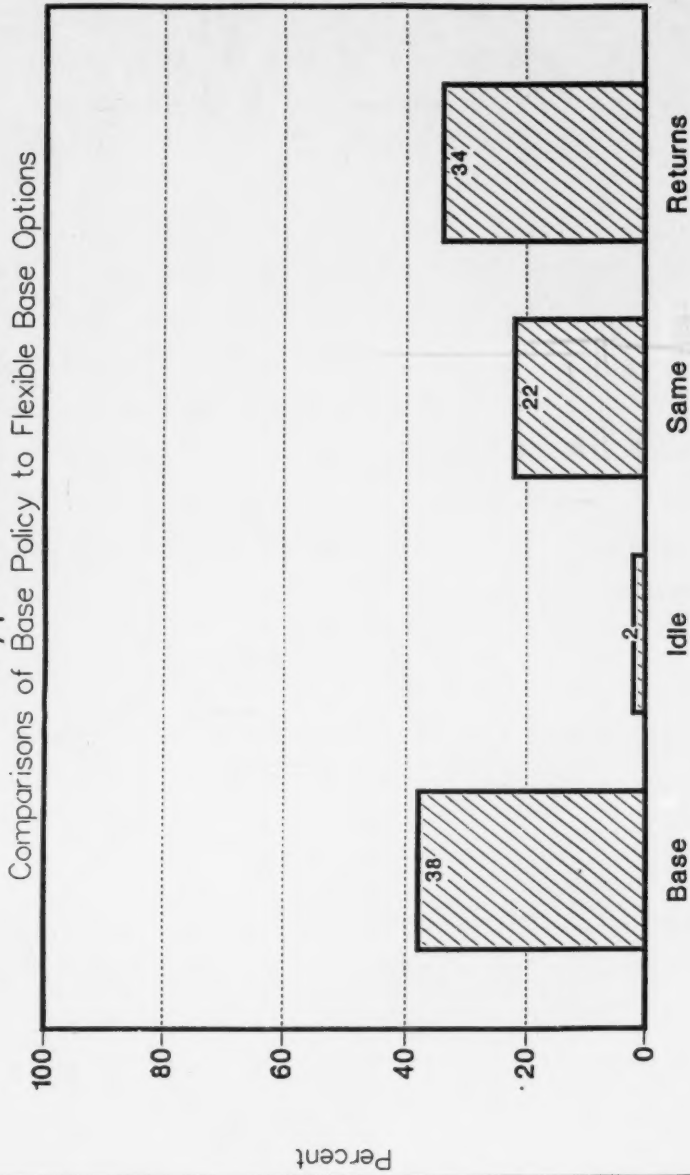


Figure 7. Probability of Earning 5% Return
on Net Worth For Northern High Plains
Typical Farms



Statement by
Abner W. Womack
Co-Director Center for National Food
and Agricultural Policy
University of Missouri, Columbia, Missouri
before the
House Committee on Agriculture
Subcommittee on
Wheat, Soybeans, and Feed Grains

June 27, 1989

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear before you at this hearing on planting flexibility. My comments are based on a recent evaluation of a flexible base option by the Food and Agricultural Policy Research Institute at the University of Missouri and Iowa State University. This option is a modification of the FSA 85 with less overall government support, typically described as a triple base option. This modification is contrasted with a continuation of the current farm bill or a baseline evaluation conducted in March of this year.

Some General Observations:

- There is about a one for one trade off between net returns and government cost. Over a four year period, net returns average about \$1.7 billion less at a government savings of about \$1.6 billion.
- Corn net returns are most heavily impacted, followed by wheat, soybeans, and cotton. This is a major point of concern since net returns on all major crops are on a downward spiral with frozen target prices. This strategy tips the scales further; for example, current projections place

corn returns dropping from \$163/acre for program participants in 1986/87 to \$125/acre by 1992/93. This option would average about \$10/acre below these levels. Cotton, over the same period, was projected to decline from around \$173/acre to about \$150. This triple base strategy would pull an additional \$16/acre off returns.

- Strong regional implications - most likely outside the corn belt. Net returns on 80 bu. corn land would drop below levels to sustain production.
- Planted area for all program crops would decline. Program participation would be lower, with total area out of production about 1.5 million acres. Soybean area would increase about 700 thousand acres the first year, but decline afterwards because of lower prices.
- Baseline estimates indicate relatively low market prices over the next few years with average weather and low set aside programs. This means that producers will still be very dependant on government supports to maintain net income. Flexible base strategy offers the option of following market signals, but market opportunities may not be as good unless we begin to experience shortages.
- This strategy does not seem to solve the soybean dilemma. Most of the area lost was recovered in higher soybean acreage in the first year. Higher acreage means lower market prices and eventually lower acreage in following years.

- Flexibility is certainly desirable, however, the economics of this situation are strongly conditioned by government programs. Lower market prices and target prices still remain the dominant factor in the farmers' production decisions.
- Very likely means that a flexible option will not recover soybean acreage unless program equitability is considered. Current soybean loan rate is out of line with feed grains. If it is lowered, additional support will be necessary to prevent further acreage decline. With expected prices at or near \$6.00/bu. thru 1992, acreage will likely hold at around 60 million acres. Prices in the \$6.50 range would bring area back into the mid 60's.
- Previous analysis by FAPRI also suggests that the PIK strategy has complicated the situation for minor feed grains - sorghum, oats, and barley, as well as soybeans.
- Excessively low market prices of corn and wheat pulled all market prices down. Low returns on soybeans without target price protection has contributed to the considerable decline in soybean acreage. Minor grains were influenced similarly. Stocks of minor grains were depleted before corn and wheat. But with market prices low, no incentive existed to produce outside program bases. This eventually helped create a shortage situation in the minor grains. Market prices rise artificially higher pulling in more acreage which quickly drops prices and refills stock positions. The longer run becomes a rather jagged production response.

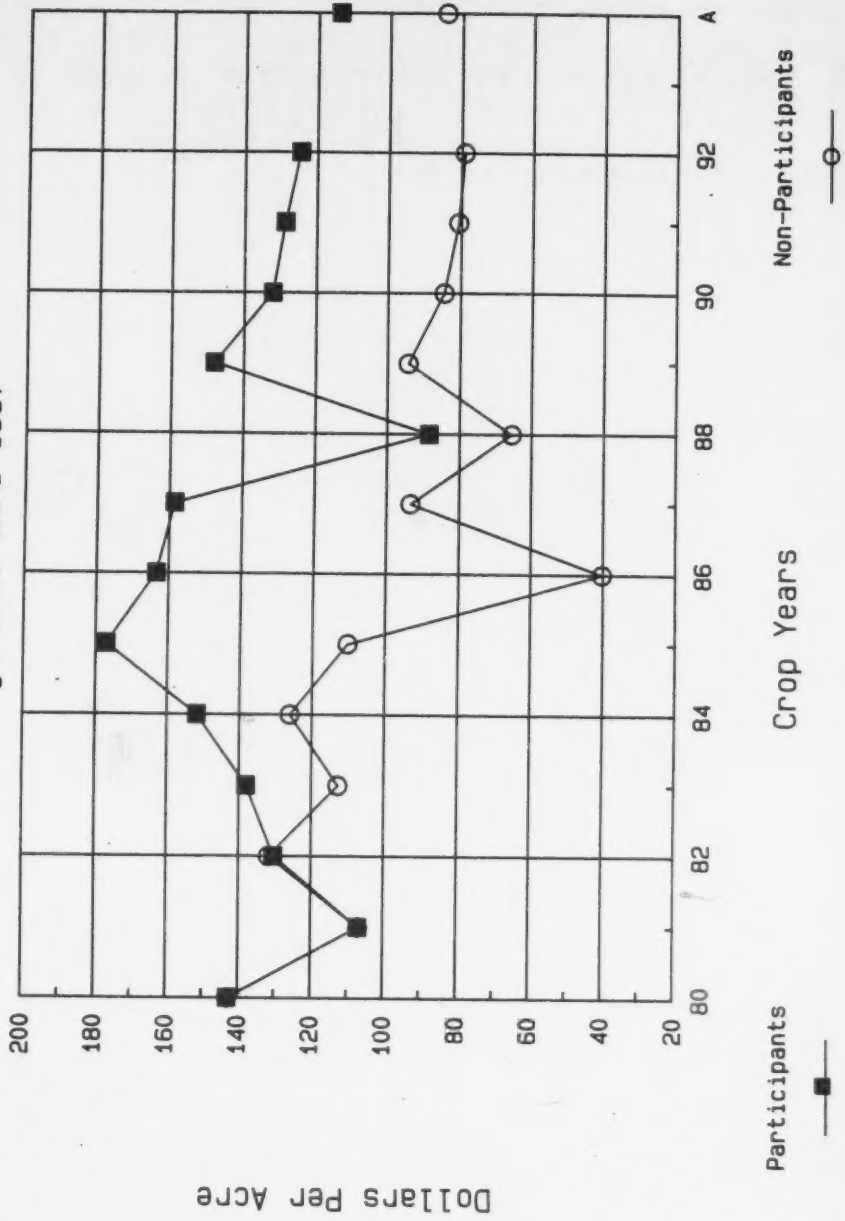
Major program characteristics are:

- Baseline was run with frozen target prices on all supported commodities after 1990.
- Triple base modification dropped to 80% of base support. In 1990, for example, this implies:

	<u>FSA85</u>	<u>Triple Base</u>
<u>Corn</u>		
ARP (Required Set-aside)	12.5%	12.5%
Planted at Full Target Support	87.5%	70.0%
Flexible, No Government Support	-	17.5%
<u>Wheat</u>		
ARP (Required Set-aside)	5.0%	5.0%
Planted at Full Target Support	95.0%	76.0%
Flexible, No Government Support	-	29.0%
<u>Cotton</u>		
ARP (Required Set-aside)	25.0%	25.0%
Planted at Full Target Support	75.0%	60.0%
Flexible, No Government Support	-	15.0%
<u>Rice</u>		
ARP (Required Set-aside)	25.0%	25.0%
Planted at Full Target Support	75.0%	60.0%
Flexible, No Government Support	-	15.0%

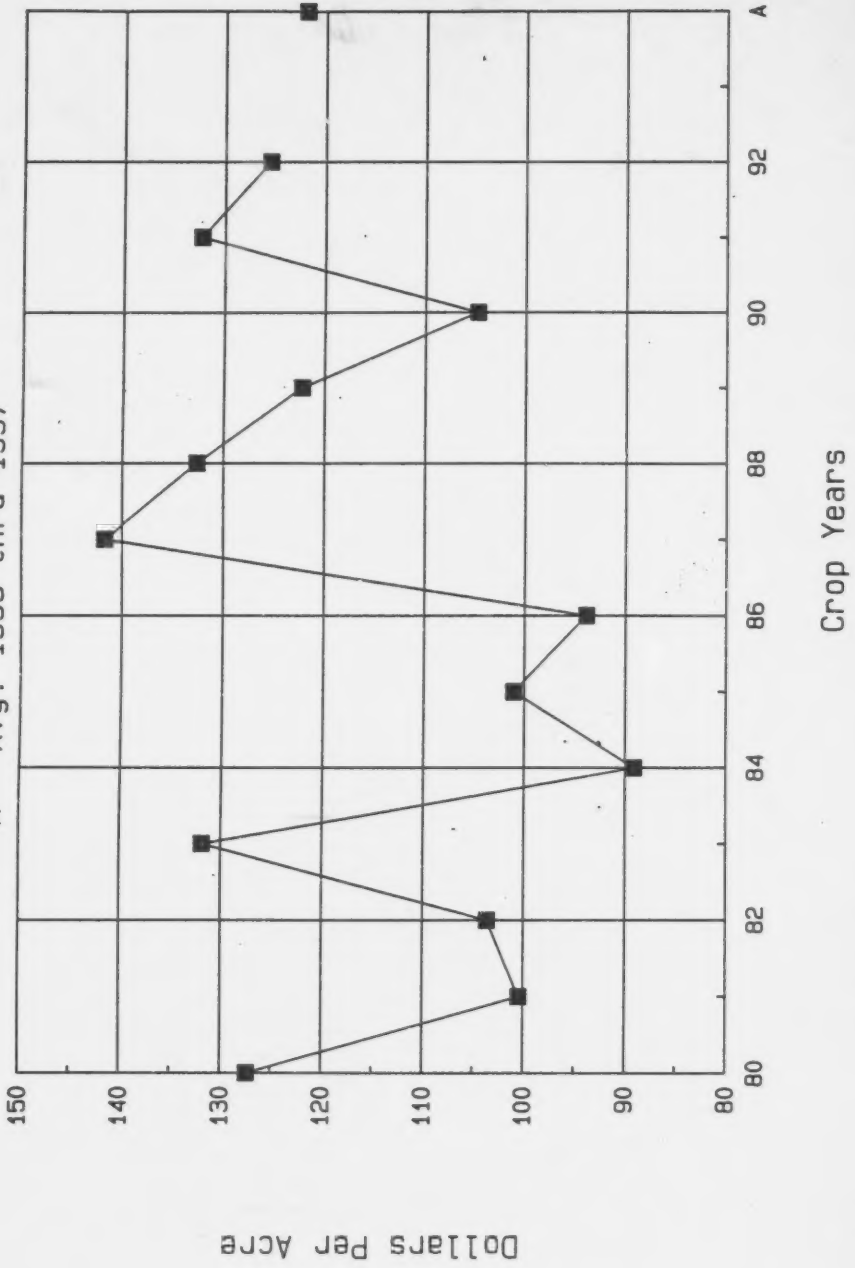
U.S. Corn Producer Net Returns

A - Avg. 1993 thru 1997



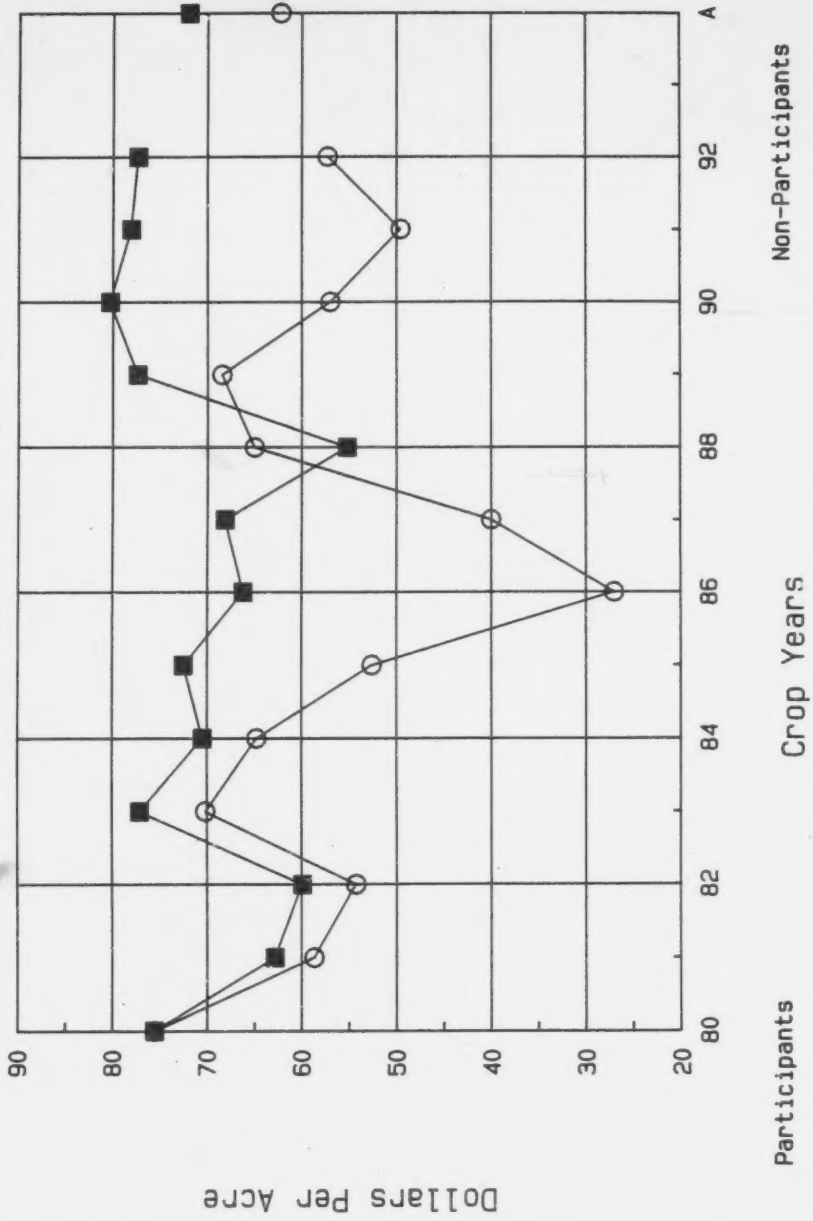
U.S. Soybean Producer Net Returns

A - Avg. 1993 thru 1997



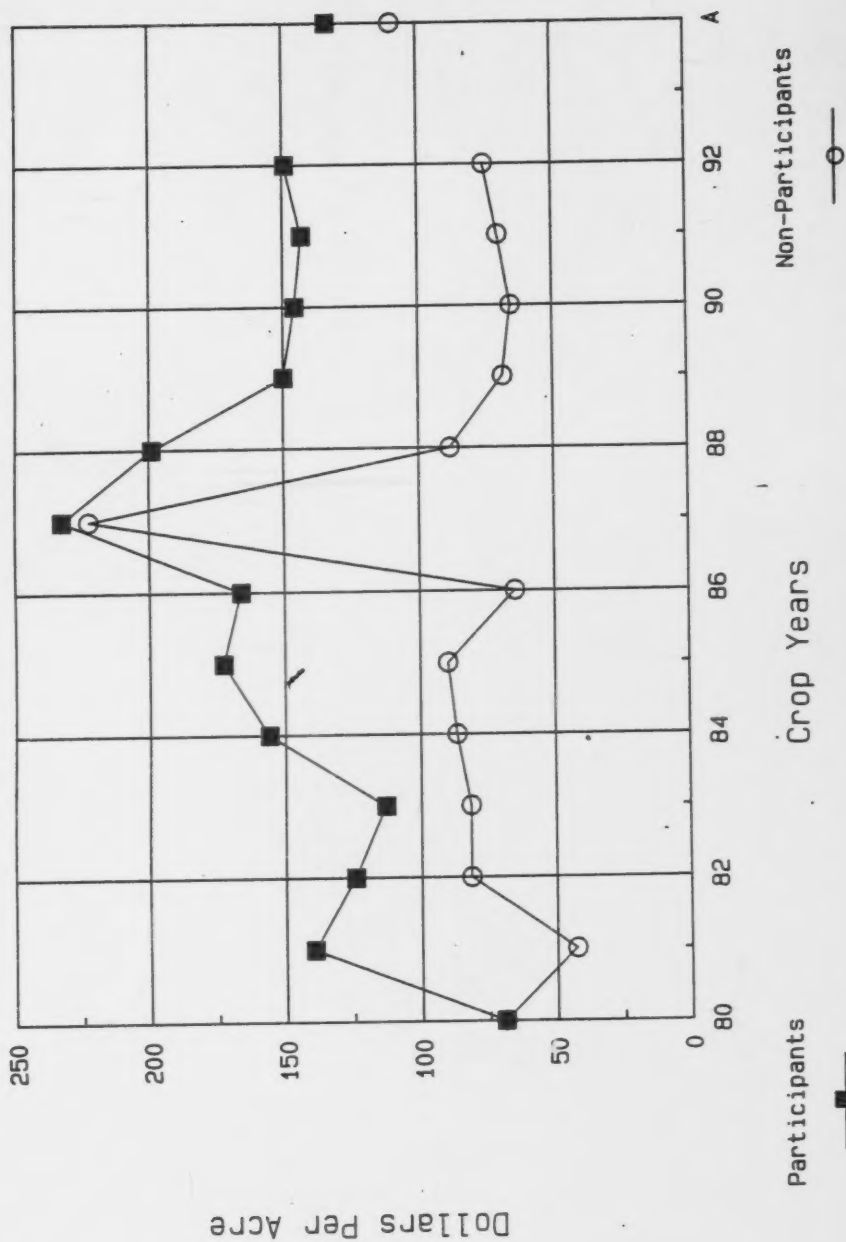
U.S. Wheat Producer Net Returns

A - Avg. 1993 thru 1997



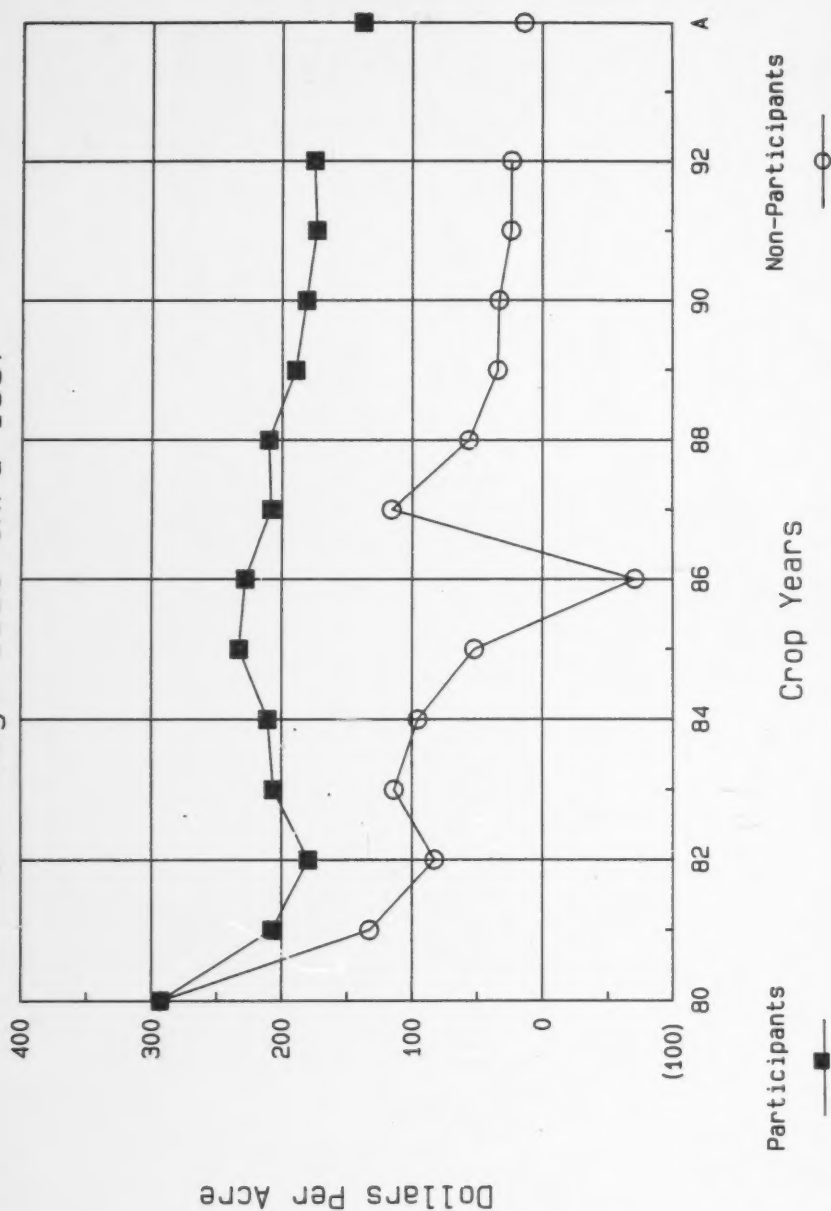
U.S. Cotton Producer Net Returns

A - Avg. 1993 thru 1997



U.S. Rice Producer Net Returns

A - Avg. 1993 thru 1997



TESTIMONY
TO
THE SUBCOMMITTEES ON WHEAT, SOYBEANS, AND FEED GRAINS
AND COTTON RICE AND SUGAR
OF THE
HOUSE AGRICULTURE COMMITTEE
JUNE 27, 1989
by
W. BRUCE HEIDEN, PRESIDENT
NATIONAL COTTON COUNCIL

Mr. Chairman, my name is Bruce Heiden. I am a cotton producer from Buckeye, Arizona and I serve as this year's President of the National Cotton Council, in whose behalf I am testifying today.

The Council is the central organization of the American cotton industry, representing producers, ginner, seed crushers, cooperatives, warehousemen, merchants and textile manufacturers.

We appreciate the opportunity to present the views of the Council on the crop and farm acreage base provisions of the 1985 Food Security Act. The Producer Steering Committee (PSC), which represents the producer segment of our industry within the Council, recently held meetings across the Cotton Belt seeking input from leadership on the cotton farm program. The subject of planting flexibility was discussed in detail including crop base provisions of the current Act, as well as more recent proposals such as "triple base" and soybeans/oats production substitution on program crop acreage. The Council

Board of Directors, at its recent board meeting in Washington, DC, adopted the PSC recommendations in this area for new legislation.

The Council recommends that current authority for planting flexibility be continued in new legislation; that is, that the Secretary continue to be given authority to allow producers to transfer up to 10% of the farm acreage base between individual crop bases. We realize that the Secretary has not used this authority to date, and all indications are that he will not do so for the remainder of this Act. USDA has earlier estimated that implementing the adjustment in crop acreage bases would increase CCC loans by \$200-300 million, which probably explains the Secretary's action.

A change from the current regulations, recommended by the Council, is to restore producers' ability to certify zero planted acreage of a program crop and have authority to plant other crops in its place. This would allow a producer to plant an alternate crop without program benefits and protect his historical program crop base. This proposal is particularly important in the Western cotton production areas where annual water availability may be a problem and also where alternative cash crops are viable. We view this as a positive change, as it would keep a producer from planting a program crop merely to protect his base when economics would dictate production of other crops. This provision should also reduce program cost outlays.

Aside from this recommended change, provisions of the 1985 Food Security Act afford sufficient planting flexibility. Producers now have the ability to comply with program provisions on one farm, with complete freedom to plant program crops without restriction and without program benefits on another farm. Furthermore, the elimination of limited cross-compliance would increase the ability for flexibility without any new major program changes. With the voluntary nature of our current programs, producers are free to plant whatever crops they feel can be sold at adequate market prices outside any government program.

We are concerned that expansion of the current base transfer authority--or other new provisions such as "triple base" or Normal Crop Acreage (NCA)--would provide an artificial incentive to attract excess acreage to cotton. This danger is magnified by the fact that national cotton base acreage is small relative to base acreages for wheat and feed grains. In 1988, the national wheat acreage base was 91.8 million acres while the acreage base for feed grains (corn, grain sorghum, barley, and oats) was 121 million acres. This compares to a national upland cotton base of 14.5 million acres in 1988. Therefore, even a small percentage shift out of wheat or feed grains to cotton would have a big impact on cotton acreage. Any substantial change has short-term supply implications and long-term base expansion necessitating larger acreage reductions. The U.S. cotton industry is currently working itself out of a large carryover stocks situation based on current acreage and production. While we have confidence that the current cotton program will provide us the

means to increase sales of U.S. cotton, both domestically and abroad, and therefore, allow us to expand production in future years, the expansion should be demand driven and not as a result of a program change.

Basically, cotton producers do not view expanded planting flexibility as a necessary farm program provision for their operation. For most of our producers, cotton is the commodity of choice. It is being produced on the most productive soils on a farming operation. We, believe, therefore, that expanded planting flexibility risks enticing non-traditional producers of cotton into the program without the proper signal from the market place. Current cotton producers, on the other hand, are generally not interested in altering their cotton cropping patterns; therefore, additional flexibility does not have much appeal.

According to a five-year average of USDA data on per acre returns above total cash cost of production, cotton yielded the highest -- or near highest -- in all cotton producing areas in this country when compared with other program commodities. These statistics excluded direct government payments. Total or expanded base transfers, because of cotton's comparative position, could stimulate excessive production.

The Council maintains that the method of base determination in the current Act for cotton is adequate to allow for an orderly expansion of cotton production when market signals warrant. This is evidenced by the fact that farms growing

upland cotton, according to ASCS, are estimated to have risen from 143 thousand in 1988, to 145 thousand in 1989; and base acreage estimates rose from 14.5 million in 1988, to 14.6 million in 1989. Most of the increase was accounted for in the Southeast and Mid-South. We do recommend that this method of base determination be continued in new legislation.

The "triple base" proposal, while primarily a technique to achieve budget reduction, does provide planting flexibility. As we have previously stated, the cotton industry places a low priority on expanded planting flexibility. Therefore, from this standpoint, "triple base" offers only marginal benefits to our producers. We recognize that as the budget negotiations continue, it may be necessary to reduce the cost of the cotton program. If this becomes necessary, we might want to consider a "triple base" approach in light of other options as a cost-reduction alternative. Some aspects of this approach that should be addressed if implemented are the potential for loan limitations, the added complexity of dual signups, one for intentions and one for final and the need for broad discretionary authority by the Secretary.

The Council opposes the Normal Crop Acreage (NCA) concept, which represents a major change in the crop acreage base provision of the current Act. This approach was tried in farm programs during the 1970's and proved unsuccessful. It was eventually changed to the current crop specific programs in 1978. Under the NCA approach, an acreage reduction could be announced for cotton, yet the actual production on the farm base for that year could in fact

increase. This occurred when NCA was last used for cotton. The current individual crop acreage base approach, when administered properly by using both acreage reduction programs and paid diversions, is a much more effective supply management program.

The Council does not oppose the Secretary's current authority to allow the planting of soybeans or sunflowers on permitted program crop acreage for 1990. If producers of these commodities favor such provisions in order to enhance production, we have no objection. However, we would oppose the expansion of this authority to cotton.

In closing, I would again state that the Council favors the current authority for crop and farm acreage base provisions, along with the addition of zero certification. We are concerned about potential adverse impacts to cotton that may come with expanded authority to exchange crop acreage bases. We oppose the NCA concept and maintain that the current authority provides adequate planting flexibility for cotton producers. We appreciate the opportunity to appear before you today on this issue and will be happy to answer any questions that you have.

Statement of Carl Schwensen
before the
Subcommittee on Wheat, Soybeans and Feed Grains
and the
Subcommittee on Cotton, Rice and Sugar
on
Crop Base Acreage Provisions
June 27, 1989

Mr. Chairman and Members of the Subcommittees:

Thank you for this opportunity to present the views of the National Association of Wheat Growers on the crop acreage base provisions of the 1985 Food Security Act. I am Carl Schwensen, executive vice president of the NAWG which is headquartered in Washington, D.C.

The crop and farm acreage base provisions of the Food Security Act were written during a period of serious surpluses of wheat and other major program crops. In fact, many had the view that these commodities were in chronic oversupply, and that strict measures would be required to keep excess capacity in-check.

A farm acreage base was developed which represents the sum of all crop acreage bases. Crop acreage bases are equal to the average of the acreage planted or considered planted to a crop on the preceeding five years. A degree of flexibility was achieved by granting the Secretary of Agriculture authority to allow bases to be adjusted annually by up to 10 percent. The NAWG has annually sought implementation of this provision, but it has yet to be used.

For the future, the NAWG recommends a normal crop acreage system (NCA) with the inclusion of summerfallow acreage to replace the current commodity base structure. This approach to annually establish farm program history is far more market-oriented than the rigid system that has been in place since 1986, and it would give farmers additional options in managing their crop residue to limit erosion and to build-up moisture.

A new concept which is the subject of general debate is the so-called "triple base" plan. As we understand this proposal, the farmer would have three bases: "permitted acreage" which would be the base acreage minus any acreage reduction or diversion program; "payment acreage" which represented a percentage of the acreage planted to the crop; and a released portion of the base which could be planted to other crops but would earn no program benefits.

We see the "triple base" plan as nothing more than a back door way of cutting target prices. The proposal appears to be entirely budget-driven, and it ignores the fact that wheat producers lack the cropping options available to farmers in corn and soybean producing areas. A wheat farmer would most likely plant wheat on the released portion of his crop base, since he does not have another cropping option that could be used to recoup benefits lost from the reduced paybase.

In this regard, we see an inherent danger in this program, if it is administered to cut payment bases by a fixed percentage across-the-board. This approach ignores the relationship of stocks to utilization between each program crop, and it fails to deal adequately with distorted price relationships. Consequently, we doubt that that desired flexibility would be achieved.

In summary, we have continuously encouraged the Secretary of Agriculture to allow growers the opportunity for up to a 10 percent base shift annually within their crop acreage base. We favor a return to a normal crop acreage-type system in future annual programs with the inclusion of summerfallow acreage. We do not regard the "triple base" plan as a means of achieving planting flexibility for wheat farmers, and we feel that the subcommittees should study the proposal carefully to determine its effect on farm income.

Thank you again for this opportunity to present the NAWG's views. I will be pleased to respond to questions at the appropriate time.



**National Corn
Growers Association**

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STATEMENT

by

STEVE WENTWORTH, PRESIDENT

NATIONAL CORN GROWERS ASSOCIATION

before the

SUBCOMMITTEE ON WHEAT, SOYBEANS, AND FEED GRAINS

COMMITTEE ON AGRICULTURE

U.S. HOUSE OF REPRESENTATIVES

on

June 27, 1989

Mr. Chairman: I am Steve Wentworth, a corn and soybean farmer from Oreana, Illinois, currently serving as President of the Board of Directors of the National Corn Growers Association. I appreciate this opportunity to appear before you and your colleagues to discuss the outlook for new farm legislation upon the expiration of the 1985 Food Security Act. I would also like to congratulate your panel for providing an opportunity for the farmers and farm organization leaders to make their views known about the various provisions and authorities in the 1985 Food Security Act, and any changes that we may recommend to it in 1990.



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The 1985 Food Security Act has been one of the more successful and popular pieces of farm legislation in recent history. This 1985 Act has proved its value to corn farmers and others during periods of extremely large surpluses of corn and other grains, as well as during the crippling drought of 1988. I believe it is fair to say that the 1985 Food Security Act has been very successful in meeting four major objectives:

- avoiding overproduction through reasonable annual set-aside programs
- beginning international and domestic price competitiveness through a prudent reduction of income price supports
- maintaining a measure of income and price supports to farmers through an acceptable level of both the target price and loan rates, and
- responding to the need to reduce all government spending as a means towards balancing the federal budget

Helped by the drought of 1988, corn stocks have been reduced substantially from their record level of over six (6) billion bushels during mid-1980. Corn exports have also rebounded appreciably from the 1.2 billion bushels in the 1985/86 season. The United States Department of Agriculture is projecting that corn exports in 1988/89 will hit 2.1 billion bushels, regaining much of the lost ground in export markets that we experienced in the early part of this decade.



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The overall federal outlays for agriculture in general and corn specifically have declined dramatically during the past four years under the 1985 Farm Act. For agriculture, the record high spending of just under \$26 billion in Fiscal Year 1985/86 has dropped precipitously to a projected \$11.5 billion in Fiscal Year 1990 -- a whopping 56 percent. For corn and feedgrains, the fall-off in annual federal expenditures is as equally dramatic: from \$12.2 billion in 1985/86 to a projected \$5.7 billion in 1989/90 or a 53 percent decline. What other sector of our U.S. society can point to such a sharp decline in federal outlays over a brief four (4) year period as U.S. agriculture's contribution toward moving to a balanced federal budget? For your information, I have attached a current briefing paper prepared by the National Corn Growers Association that documents these statements.

Many farm groups are suggesting that the 1990 Farm Bill include increased flexibility to allow the planting of non-program crops, such as soybeans, without endangering farmers' acreage bases.

NCGA favors a certain degree of leeway within the programs to make U.S. agriculture more responsive to market signals. However, we strongly oppose flexibility schemes which, in actuality, give the flexibility to the administration as a back-door method of cutting farm program spending.



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True farmer flexibility programs should set parameters for acreage substitution and let the farmers have the final say -- without subsequent trips to the county ASCS office. This year's oilseed "10-25" plan was a step in the right direction, although it gave USDA the ultimate power to determine just how many acres could be switched over.

At the grassroots level, the majority opinion is that the 1985 Food Security Act has worked -- and has worked well! As you and your colleagues on the Agriculture Committee begin your deliberations on a successor to the current farm bill, we suggest you keep the very successful and acceptable provisions and authorities of the current law, and only consider fine-tuning some of the other provisions in the bill and other pieces of legislation.

In a 1990 farm bill to be put in force for the 1991 crop year, we will have to provide for additional and responsible provisions to accommodate a growing concern for various environmental issues: water safety, soil conservation and air quality. The whole complex of chemical usage in corn and other agricultural production now being considered in the overall sphere of "food safety" cannot be ignored by agriculture in re-writing a farm bill.

While much of the federal legislative efforts in "food safety" may be developed in committees other than agriculture in the United



States Congress, you and your other colleagues on the Agriculture Committee must press to have joint responsibility in writing such legislation. Moreover, in the entire area of environment and food safety, it is very obvious that you should consider authorizing a major research section of any new farm bill to determine what degree of regulation over usage and application of chemical inputs for corn production is safe and prudent. Too much special interest group hysteria is moving the popular press to literally "scare the hell out of consumers" about these matters. Alar as an apple preservative is the most recent and glaring example.

Following a major research effort to determine proper tolerances and uses of chemicals with a view of maintaining water quality, clean air, and preventing soil erosion -- research that may be performed by the National Science Foundation, the Academy of Sciences in conjunction with our fine research resources in land-grant universities -- we would be in a better position to legislate areas for which the Environmental Protection Agency and the Food and Drug Administration are now just literally making decisions to accommodate "public pressure." Having such scientifically reliable and documented data would allow us to write a responsible environmental/conservation title in new omnibus farm legislation. A good starting point may be the environmental conservation acreage reserve legislation that was introduced by Senator Dole in early 1988 to handle such matters.



While the decrease in support prices in the current act has returned us to a competitive position in the world grain trade, a simple continuation of the lowering of the supports is not necessary in new legislation. In 1990, the fifth and final year of the 1985 Act, the corn target price will be just \$2.70 per bushel and the loan rate just \$1.57 per bushel. With respect to current market conditions for corn and grain, these should be frozen and simply extended through the life of any new farm bill. In the event that inflation raises its ugly head again, we may need to consider some type of inflation clause that would adjust target prices to allow corn farmers to keep up with the likelihood of increasing costs for the production of corn.

Another major goal of the 1985 Food Security Act is the commitment to a vigorous export expansion program for corn and agricultural production. In this regard, I would urge you to seriously consider making the marketing loan for corn mandatory in any instance that it can be demonstrated that our corn exports face unfair price competition for overseas markets. In addition, the mandatory use of a marketing loan for corn must be on the basis of a recourse loan without a price floor in order to preclude some of the export problems now facing some other agricultural crops.

Whether in a 1990 farm bill or in other legislation, we urge you to continue to support and expand new and current industrial uses



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for corn. I have in mind here that the 6 cent per gallon exemption for ethanol from the federal motor fuel excise tax should definitely be extended to the year 2010. With this small federal incentive, our domestic ethanol fuels industry, which produces a cleaner burning fuel that is produced almost solely from corn, has grown from about 80 million bushels of usage in 1979 to just under 350 million bushels this year.

Use of degradable plastic bags and containers manufactured with corn starch must continue to be pressed at the national level from officials of your prominence. These moves would increase corn usage and further decrease program costs. With almost one (1) billion bushels of corn being used in various industrial forms, from ethanol to corn sweeteners, all of which use the starch component of corn, we must keep open the export market in the European Economic Community for corn gluten feed. In addition, we must move to find additional export markets for corn oil as well. Both corn oil and corn gluten feed are by-products of the corn processing industry; both products are excellent protein based products for human and animal consumption, respectively.

There are many other issues I could raise today in these hearings, but I will resist that temptation in the interest of time. Nevertheless, I have attached several additional briefing papers



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prepared by the National Corn Growers Association that can be incorporated as part of my statement for your record and later reading. In closing, I repeat that I am pleased to appear before you today, and again congratulate you on holding these hearings. It really demonstrates to farmers such as me that you and your colleagues have a genuine interest in and concern for the issues facing corn farmers.

(Attachments follow:)



National Corn
Growers Association

Issue FEDERAL BUDGET/AGRICULTURE IN FY 1990 BUDGET

Background: Following the October 19, 1987, stock market plunge, Congress developed a two-year, \$76 billion budget reconciliation package to bring the federal deficit in line with the Gramm-Rudman-Hollings (GRH) deficit reduction requirements. These efforts were undertaken to avoid an automatic 3.5 percent sequestration (an estimated \$.16/bushel in 1988) of federal spending. For agriculture, this deficit reduction package required farm spending to be reduced by \$900 million in 1988 and an additional \$1.5 billion in 1989. For corn growers, these actions required an additional reduction of 1.4 percent in the target price for 1988 and 1989 crops -- in addition to the scheduled reductions in the 1985 Farm Bill.

Discussion: President Bush's first budget message to Congress made little mention of additional cuts in farm spending. However, the written version of President Bush's budget plan for agriculture seems to "mirror" the Reagan budget. That means a proposed \$1.1 billion cut in farm program spending for fiscal 1990. The Reagan budget also called for farm programs to be cut an additional \$2 - 2.5 billion each year from 1991 - 1994. Bush's exact agricultural spending priorities are still somewhat sketchy at this point. He has repeatedly noted the need for opening export markets and placing additional emphasis on new research. However, he's been reluctant to pinpoint where cuts would be made to finance these or other new initiatives. Most likely ways to reduce farm program spending: lower target prices or reduce the number of base acres eligible for farm programs. The feed grains program will continue to be a prime target for budget cutters, even though spending has dramatically declined. The chart below shows USDA estimates for net CCC program outlays by commodity. This information was included in President Reagan's USDA budget proposal.

Commodity	Fiscal Years				1990
	1986	1987	1988	1989	
	-----million dollars-----				
Feed Grains	\$12,211	\$13,967	\$ 9,053	\$ 3,042	\$ 5,562
Wheat	3,440	2,836	678	279	1,052
Rice	947	906	128	999	959
Cotton, Upland ...	2,142	1,786	666	2,538	994
Tobacco	253	-346	-453	-569	-280
Dairy	2,337	1,166	1,295	662	893
Soybeans	1,597	-476	-1,676	-32	116
Honey	89	73	100	60	55
Wool	123	152	131	89	98
Disaster Assist. .	- 0 -	- 0 -	- 0 -	4,515 a/	- 0 -
Other	2,702	2,344	2,539	2,260	2,130
Total CCC Outlays					
Under Current Law	\$25,841	\$22,408	\$12,461	\$13,843	\$11,579

Notwithstanding budget reduction action in 1987 and 1988, the potential for additional budget cutting in 1990 is increasing. Unfortunately, agricultural spending is often mentioned as a likely source of budget savings. Therefore, it is important to note the significant contributions agriculture already has, currently is, and is projected to make to reduce spending and subsequently deficit reduction. Agriculture recognizes the importance of reducing the federal deficit and its potential impact on the national economy. At the same time, however, Congress and the Administration must recognize that agriculture has already made a tremendous contribution towards budget savings. Therefore, equity and balance must be the order of the day should the need arise to consider additional spending reduction alternatives.

Action: As additional budget reductions are needed through either Gramm-Rudman-Hollings sequestrations or budget reconciliation actions, require that all sectors of the government and the economy share equally in any budget adjustment that is taken -- but stressing the disproportionate USDA contributions in reducing the federal deficit through sharp reductions in farm expenditures over the past three years. It should be emphasized also that USDA's annual entitlement expenditure is just under 4% of the total such federal expenditures but is potential exposed to a 20% reduction under GRH sequestration orders.



National Corn
Growers Association

Issue: MOST-FAVORED-NATION (MFN) STATUS FOR THE SOVIET UNION

Background: The history of U.S. and Soviet grain trade is simply replete with difficulties inasmuch as there has been various clashes of social, economic and political interests both at home and in third-countries. The real beginning of Soviet purchases of U.S. corn and wheat began in 1971 following the authorization of a three-year CCC line of commercial credit to the Soviet Union. That line of CCC credit provided for up to \$750 million dollars of CCC credit for a three-year period of time, but not to exceed \$500 million dollars of purchases within any individual year and to be repaid in three equal annual payments of both principle and interest. As you know, the Soviet Union made maximum use of that CCC credit facility, and repaid the facility on time.

Because of the U.S. concerns about the out-migration of Jewish dissidents in the early 1970's, several laws were passed that placed severe limitations on any further extensions of U.S. Government direct or indirect credits for import purchases by the Soviet Union: the Stevenson Amendment in 1972 and the Jackson-Vanik Amendment in 1974. The latter amendment required that the President must certify that the Soviet Union was, among other things, allowing the permissible applicants for Jewish out-migration each year. Since the early 1970's the Soviet record in this regard prevented any President from making that certification in the United States Congress.

Even in the absence of U.S. Government sponsored credit programs, the Soviet Union made surprisingly large purchases of both corn and wheat in the mid-1970's, a development that resulted in the 1975 US-USSR Grain Agreement that essentially limited the Soviet access to U.S. grain markets with significant supervision by the U.S. Department of Agriculture.

We need not discuss the Soviet invasion of Afghanistan and the ensuing embargo on commercial trade between the United States and the Soviet Union. Although the 1975 Grain Agreement was not abrogated, the annual purchase volume by the Soviet Union was strictly adhered to. Nonetheless, in 1983 a new and expanded five-year grain agreement went into place. It has now been extended for another two and one-quarter years, due to expire on December 31, 1990.

Recent advances and modifications of both domestic and international policies under Gorbachev in the late 1980's strongly suggest a review of the restrictions on commercial agricultural trade required by either the Stevenson Amendment, the Jackson-Vanik Amendment or both:

- * scheduled Soviet withdrawal from Afghanistan
- * upwards to 20,000 out-migrations of Jewish dissidents in 1988
- * introduction of "perestroika" that is really a movement towards a market-oriented economy for the allocation of sources resources

- * various arms control agreements and the outlook for further negotiations on other military-security matters
- * Soviet initiatives to join the GATT, the World Bank, etc.
- * recently concluded commercial accord between the COMECON Countries and the European Economic Community
- * almost \$5 billion in credits and lending facilities from EC countries to the Soviet Union

Discussion: It is now time for the United States to reassess its policies toward both agricultural and other sector trades with the Soviet Union -- if for no other reason than to remain competitive with other foreign countries and particularly with the EEC competition in grain and agricultural trade with the Soviet Union. This reassessment must begin with both the Stevenson and Jackson-Vanik amendments, as well as the long-held U.S. position to oppose Soviet membership in the General Agreement on Tariffs and Trade (GATT).

While corn and other grain trade continues to prevail under the 1985 US-USSR Grain Agreement, the real potential for U.S. corn and grain exports cannot be realized until such trade is placed on a genuine commercial basis -- including such usual commercial facilities as credit and including CCC credits for Soviet purchases of U.S. corn and agricultural products (see Attachment "A" called "U.S. - U.S.S.R. Grain Agreement").

Within the context of further federal budget reductions that will result in further declines in federal outlays for U.S. corn and agricultural programs, we must look to increased disappearance of our agricultural production in order to realize higher prices from the marketplace. There is no better way to achieve this goal than to put into place commercial credit and export policies for agricultural exports, such as the re-authorization of commercial CCC credits to the Soviet Union and the U.S. support of Soviet membership in the General Agreements on Tariffs and Trade.

Most-Favored Nation (MFN) status is a commitment by a country to extend to another country the lowest tariff rates or the most favorable non-tariffs policies that it applies to any third country. All contracting parties to the General Agreement on Tariffs and Trade (GATT) undertake to apply such nondiscriminatory treatment to each other. The United States bilaterally extends MFN status to all market economies, but excludes non-market economies from receiving MFN benefits, with the exception of Poland, Hungary and Yugoslavia. For the U.S., the denying of MFN status is directly linked to human rights issues through the Jackson-Vanik provisions in the Trade Act of 1974. The objective of Jackson-Vanik is to exert economic pressure on non-market economies to allow free emigration of their citizens. In the case of the Soviet Union, the human rights issue is closely tied to allowing Jewish emigration.

The U.S. is prohibited by Jackson-Vanik from granting non-market economies the following: (1) Most-Favored Nation treatment if they did not already qualify on January 3, 1975 (Poland and Yugoslavia qualified), (2) U.S. government credit or credit guarantees, or investment guarantees, and (3) commercial agreements that provide for MFN treatment or other mutual rights and obligations. The lack of MFN status, and the discriminatory

treatment implicit in that restriction, are of major concern to the Soviet Union in its trade relations with the United States.

The U.S. has had a large trade surplus with the Soviet Union largely because of Soviet grain imports. The Soviets believe strongly in reciprocal trade and have attempted to link reduced grain purchases to efforts to eliminate the trade deficit with the United States. The granting of MFN status to the Soviet Union would eliminate discrimination against Soviet imports into the U.S. and allow the Soviets to compete on a more equitable basis with other suppliers. An increase in U.S. access of Soviet goods could translate into an increase in Soviet purchases of U.S. agricultural commodities.

Action: Urge the U.S. to offer Most-Favored Nation (MFN) status to the U.S.S.R., and the necessary modifications of law to accomplish this objective.

ATTACHMENT "A"

U.S. - U.S.S.R. LONG TERM GRAIN AGREEMENT

The salient provisions in the 1983 grain agreement were as follows, and the five-year agreement was extended until December 30, 1990:

- the United States would offer at least four million tons of corn; four million tons of wheat, and/or 500,000 tons of soybeans to the Soviet Union each year of the agreement. Soviet purchases of the 500,000 tons of soybeans would count for one million tons of either corn, wheat or both.
- the Soviet Union would purchase at least the annual minimum of corn, wheat and/or soybeans each year, with the benefit of increasing its annual corn and wheat purchases by an additional three million tons without any further consultations with the United States.
- under Article I of the 1983 Agreement, it is specified "... purchases/sales of commodities under this Agreement will be made at the market price prevailing for these products at the time of purchase/sales and in accordance with normal commercial terms..."

For the period from October 1, 1983, to the present, U.S. grain export sales to the Soviet Union for import purchases have been as follows as of March 15, 1989:

<u>Year 1/</u>	<u>Corn</u>	<u>Wheat</u>	<u>Soybeans</u>	<u>Soymeal</u>	<u>Total</u>
		(Million Tons)			
1983/84	6.5	7.6	0.5	-0-	14.6
1984/85	16.7	2.9	-0-	-0-	18.7
1985/86	6.8	0.2	1.5	-0-	8.3
1986/87	1.5	-0-	-0-	-0-	1.3
1987/88	5.2	9.1	0.8	1.3	16.4
1988/89 2/	10.2	4.0	0.5	1.4	16.4
Cum. Totals	45.9	23.8	3.3	2.7	75.7

1/ Shipping year of the basis of October 1 - September 30.

2/ 507,000 tons of U.S. grain sorghum has been purchased by the Soviet Union, and is not included in "Total".



National Corn
Growers Association

Issue: SUGAR

Background: The 1985 Farm Bill extended the sugar program and its 18 cents per pound loan rate through 1990. To eliminate the prospect of financial exposure to the federal government, the legislation required that the sugar program be operated at "no net cost". Accordingly, the USDA annually adjusts the sugar import quota to maintain this economic equilibrium.

Since its inception, the sugar program has been under almost continuous attack from the administration and sugar users. Most recently, legislation was introduced to cut the loan rate from 18 cents per pound to 12 cents per pound, provide "transition" payments to sugar beet and sugar cane growers and establish an annual import quota at not less than 2 million short tons. The importance of the U.S. Sugar Program to corn growers cannot be understated. In 1987 alone, 540 million bushels of corn were consumed to produce high fructose corn sweeteners, providing corn growers with their third largest market behind livestock and export markets.

Unfortunately, this legislative proposal does little to resolve many of the problems it was designed to benefit—consumer prices, Caribbean Basin countries, and the balance of trade. To exemplify this point, on September 5, 1986, Secretary of Agriculture Richard Lyng stated ...

"EC farm price supports throughout the 1970s pushed the Community from status as a net importer to a major producer and a net exporter of sugar. Since 1977, when the EC became a net exporter, internal price supports for sugar have risen by 70 percent. During that time, the EC has dumped on the world market nearly 25 million metric tons of sugar. 'Dumped' is the apt term because the EC has taken every measure to avoid accumulation of ending stocks. During the years since 1977, EC ending stocks have not changed while world ending stocks have increased by more than 25 million tons."

The less developed countries bear the brunt of this policy. Dumping sugar has depressed the prices of the stocks which they must sell. This has resulted in billions of dollars of losses in export earnings."

In addition to EC dumping, another pressure undermining the viability of the sugar program is rapidly expanding imports of sugar-containing products. These imports have increased by more than 300 percent since 1982, totalling 1.48 million short tons in 1986.

Discussion: It is difficult, if not impossible, to modify the sugar program as long as EC dumping continues and the importation of sugar-containing products is not controlled.

The current sugar program works

- at no cost to the federal government.

- * as resistance to predatory foreign sugar policies. The average world cost of raw sugar is \$.15 per pound for cane and \$.23 per beet, but the current world price is approximately \$.08 per pound due to foreign subsidies. Weakening the sugar program would signal U.S. acquiescence to the unfair sugar subsidies of the EC and other exporters.
- * as protection for U.S. consumers. Lower sugar supports which would destroy the U.S. industry, will not lower prices for consumers but will leave the consumers at the mercy of volatile world sugar prices. In the end, U.S. consumers may pay more for sweeteners, not less. For example, since 1980, although U.S. sugar prices have gone down 5.3 per cent, the price of sugar-containing products has risen 30 percent, since industrial users have not passed on savings.
- * to preserve a competitive domestic industry. U.S. sugar is produced at about the average world cost. High fructose corn sweeteners are the lowest cost sweeteners in the world.

Action: The NCGA strongly supports maintaining the sugar program to insulate the U.S. sweetener industry from the effects of foreign subsidized sugar exports until such foreign subsidies are eliminated.



National Corn
Growers Association

Issue: DEGRADABLE PLASTICS

Background: Since the late 1940s, the use of plastics for packaging has grown by leaps and bounds. The proportion of plastic in waste has grown to the point where the immense quantities requiring disposal have become a problem.

Plastics waste is not only a problem in waste management. Improper disposal of plastic materials in waterways and on land has become an increasing concern due to its unsightly nature and the damage caused to wildlife through entrapment or ingestion.

Using cornstarch in the production of plastics can make them more digestible to fungi and bacteria and therefore, degrade in three to five years rather than centuries. Corn based degradable plastics not only diminish the problem of plastic wastes, but also create a new market for U.S. corn growers.

Discussion:

- * Plastics contribute over 7 percent by weight and over 30 percent by volume of the garbage discarded into the solid waste stream.
- * Each American currently produces about five pounds of garbage a day compared to 2.9 pounds a day in 1960.
- * The EPA estimates that 27 states will face severe landfill capacity problems within five years.
- * More than 90 percent of America's waste is buried in landfills.
- * Landfill is the cheapest method of disposal, sometimes as low as \$3 per ton. But as landfill space becomes scarce, disposal fees of more than \$100 per ton have been reported.
- * Incineration is another method of waste disposal. However, the public is concerned about air pollution from this method as well as toxic ash.
- * Recycling has its problems including the instabilities of markets for some of the materials and technical barriers to the recycling of mixed materials especially when it relates to the many different types of plastics used.

Action: We encourage your support for initiatives to foster the development and growth of cornstarch based degradable plastics thereby creating a new market for the nation's largest renewable resource - CORN.



National Corn
Growers Association

Issue: ETHANOL

Background: The domestic fuel ethanol industry came into existence in the late 1970s in response to gasoline shortages and the need for alternate sources of liquid fuel to reduce dependence on foreign oil. While ethanol was originally used to extend supplies of petroleum-based fuels, ethanol has become one of the most valuable additives available to boost gasoline octane.

In 1988, the domestic fuel ethanol industry produced and marketed over 850 million gallons of ethanol, creating a cash market for some 340 million bushels of grain, increasing farm income by an estimated \$1 billion and lowering federal farm program costs by \$700 million. Ethanol has become one of the nation's premier octane enhancing additives for today's gasolines.

Today, fuel ethanol blends have won substantial consumer acceptance with an 8 percent share of the national automotive fuel market. Since 1980, consumers have driven over 500 billion miles on ethanol blended fuels, and every automobile manufacturer in the world recognizes ethanol's performance benefits and provides full warranty coverage for 10 percent ethanol blends.

In addition to raising the octane of gasoline by three full points, ethanol has a number of significant environmental benefits which make it an effective pollution reduction option for the nation's 90 carbon-monoxide and ozone non-attainment cities. Colorado is currently requiring the use of oxygenated fuels to reduce carbon-monoxide levels. Other states, Arizona, New Mexico and Nevada for example, will implement ethanol blended programs in late 1989 as part of their State Implementation Plans to come into compliance with EPA standards. Specifically, the use of ethanol blends will reduce motor vehicle emissions of carbon monoxide by approximately 25-30 percent. Because the oxygen content of an ethanol blend is almost twice that of other oxygenated fuels, its ability to reduce carbon monoxide levels is greater than any alternative oxygenated fuel.

Discussion: Since 1978, the U.S. Congress and many states have taken significant steps to encourage the production and use of fuel ethanol. Currently, the law provides for a cents per gallon excise tax exemption on any gasoline which contains at least 10 percent ethanol. The excise tax exemption expires on September 30, 1993.

Action: We encourage your continued support for initiatives to foster the development and growth of a domestic ethanol industry. Specifically, we would encourage the extension of the excise tax exemption for ethanol blended fuels to the year 2000 and the expanded use of ethanol for its environmental and octane enhancing properties to achieve a goal of 1.2 billion bushels of annual corn consumption for ethanol by 1995.

STATEMENT OF STEVE YODER
ON BEHALF OF THE AMERICAN SOYBEAN ASSOCIATION
ON
CROP AND ACREAGE FARM BASE PROVISIONS
OF THE 1985 FOOD SECURITY ACT
BEFORE THE
SUBCOMMITTEES ON
WHEAT, SOYBEANS AND FEED GRAINS
AND
COTTON, RICE AND SUGAR
OF THE
HOUSE COMMITTEE ON AGRICULTURE

JUNE 27, 1989

Thank you for the invitation to be here today. I'm Steve Yoder, a soybean farmer from Altha, Florida, where I also raise peanuts, wheat and operate a dairy herd. I serve on the ASA Board of Directors and am past president of the Florida Soybean Association. I'm here today in my capacity as a member of ASA's farm bill planning group, the "Policies for the 1990's Task Force."

The 1990's Task Force is a group of soybean farmers representing various soybean producing regions. It is charged with the responsibility to develop soybean policy options for soybean farmer leaders who, in turn, will be coming to Congress with recommendations to consider for the next farm bill.

ASA congratulates Chairmen Glickman and Huckaby for holding this hearing in anticipation of the next farm bill. The legislation will set the framework for U.S. agriculture into the next century.

The 1990's Task Force has been at work for the past one and a half years. We first analyzed the challenges facing U.S. soybean farmers. We talked to agricultural economists, policymakers, USDA officials, other farm organizations and many, many farmers. Next, we held 30 listening sessions in soybean producing states to hear what soybean farmers themselves think of soybean farm policy. We made sure we heard from ASA members and non-members alike. By design over 50% of the farmers participating in the Listening Sessions were not ASA members. We also widely circulated a questionnaire asking thousands of soybean farmers their opinion on soybean policy issues.

ASA's 1990's Task Force found that "greater farmer freedom to make planting decisions" is among the four top concerns of soybean farmers. So was environmental policy. We do need balanced environmental policies which allow farmers to

produce soybeans competitively and profitably while protecting the environment. If farmers have more freedom to plant what's best for their farming operation, they can improve crop rotations. More balanced crop rotations mean better pest and disease control, conservative use of fertilizer and chemicals, and lower farm production costs.

Traditionally, ASA's philosophy has been to focus on the soybean farm program while other farm organizations and commodity groups addressed their respective commodity programs. Increasingly, it has become evident that the economic signals sent by each farm program affects the entire crop production mix since each farmer often produces several crops.

As Congress drafts the next farm bill, we recommend that Congress carefully consider the planting signals sent by federal commodity income supports and crop base restrictions from the farmer's perspective. Simply put, farmers will produce those crops with the greatest returns, whether from the marketplace, the government, or both. They will also seek to preserve their eligibility to participate in farm programs, which means preserving crop base acreage. To do otherwise just doesn't make economic sense.

As I've traveled the country for the 1990's Task Force, I've heard much about the "base lock" many farmers find themselves in today. To soybean farmers, this base lock means those who wish to plant additional acres of soybeans to capture market opportunities or balance rotations, face a severe penalty if they plant on base acreage. They will see their base acreage reduced in the coming year. After the low prices of the mid-1980's, farmers and their bankers know the value of maintaining base acreage and, therefore, eligibility for farm program support.

The majority of farmers and the majority of row crop production acreage in this country are eligible to participate in federal farm programs which employ crop acreage bases. This means that the majority of our productive capacity is in "base lock."

As I traveled across the soybean belt last winter, farmers told me they "want to produce for the market, not the mailbox." The majority of farmers want greater freedom to make planting decisions on their farms. They want simpler farm programs. Now we literally spend days in the local ASCS office waiting in line to be told what to plant, where and how much of one crop or another to plant.

Why can't we report to ASCS the acres we grow instead of asking permission?

Soybean farmers would like the option to improve crop rotations for agronomic and price reasons. Continuous

production of program crops is skewing crop rotations with adverse impacts on yields. Moreover, the market today offers some attractive profit opportunities for nonprogram crops such as soybeans. Why not give farmers greater freedom to plant soybeans for the market by allowing substitution without base loss?

We suggest this Subcommittee explore options which meet the various soybean regional interests to achieve this goal. ASA stands ready to work with you to facilitate this process, since it appears possible and desirable to explore ways in which regional concerns might be addressed in an overall program.

Several structural changes in the base acreage system which would allow greater farmer planting freedom warrant consideration by these Subcommittees. While additional options may develop in the coming months, I'd like to focus on three today ... the "10/25" provision, the "triple base," and normal crop acreage concepts.

1) The planting flexibility provision in the 1988 Disaster Assistance Act related to soybeans, commonly referred to as the "10/25 provision."

Adoption of this provision gave farmers a degree of flexibility. Importantly, it also opened the door for further debate on planting freedom.

Soybean farmers enrolled 3.5 million acres in the 10/25 program, but faced a 20% prorated reduction announced by the Secretary. This occurred because a prorated reduction was required if the projected average market price for the 1989-crop soybeans was below \$5.49 (115% of the 1988 soybean loan rate). ASA believes it is virtually impossible to predict with any degree of reasonable accuracy in the early spring of the preceding marketing year what the average soybean market price will be for the coming marketing year. Who can accurately predict the level of South American soybean plantings, Canadian winter rapeseed production or EC oilseed acreage increases? Even USDA's June 12 World Agricultural Supply and Demand Estimates report offers a \$1.75 price spread for the projected 1989-crop soybean farm price!

ASA believes the 10/25 provision is a step in the right direction, but would look favorably upon efforts to streamline the program. Specifically, we recommend that the reporting requirements and the possibility of a prorated reduction in plantings be removed from the provision. Aside from the complicated nature of the program, the prorate provision tells foreign producers of soybeans and other oilseeds around the world that the U.S. government must work to ensure that the world soybean price does not fall below \$5.49 per bushel. ASA favors strong market-driven soybean

prices, but we have very serious reservations about raising the publicized world price floor for foreign competitors producing soybeans. This will stimulate greater overseas production to the detriment of U.S. soybean farmers.

2) The "triple base" theory which, as we understand it, would create nonpayment acres on a specified portion of program crop bases.

"Triple base" seems to be a term which means different things to different people. As we understand, in its most conservative form, it restricts farm program/deficiency eligibility to a portion of a producer's permitted acreage. The producer would still have to comply with any setaside requirements as a condition for farm program eligibility. On the "third base," meaning those non-payment acres and non-setaside acres, a producer would be free to plant program or nonprogram crops. Production on this "third base" would not be eligible for federal farm program benefits.

"Triple base" is a concept which warrants further consideration. We recommend that it be evaluated as to how it might impact farmers who grow program and nonprogram crops.

3) The "normal crop acreage" concept whereby program acreage is determined on a "whole farm base" basis.

NCA is not a new idea, and was implemented most recently in the 1978 and 1979 crop years. Each participating farmer had an overall farm acreage base. On this farm base, a farmer could grow a mix of fourteen various crops, including soybeans, some of which were eligible for government assistance and some not. The program allowed a farmer to plant as much acreage to any crop desired as long as he or she set aside the appropriate acreage required for the crop eligible for government assistance. (Soybeans did not have a setaside, but program crops did.) A farmer's total setaside plus his planted acreage could not exceed his NCA or whole farm base.

The NCA program gave farmers a wide degree of freedom to make planting decisions. ASA recommends that serious study be given the NCA concept, with emphasis on a more flexible way of calculating the whole farm base and an evaluation of the relative production incentives for various crops.

Congressman Glickman, you and other agricultural leaders have made numerous public remarks about the serious challenges facing U.S. soybeans today. It's a well-documented fact that soybean and oilseed production is expanding rapidly in South America and elsewhere abroad, while the U.S. faces a constriction in soybean production. It's also a fact, documented by USDA and many others, that

the U.S. is losing world market share for soybeans, soybean meal and soybean oil while demand is growing at 4-5% per year. It's alarming that soybean farmers are losing market share in a growing market!

ASA believes that current U.S. farm programs are discouraging production of soybeans in the U.S. and encouraging production overseas. U.S. farmers get the signal to maximize production of program crops while our competitors see the opposite signal from the marketplace and expand soybean production. We recommend that the next farm bill address this dilemma.

Farm program economics tell U.S. farmers to maximize production of program crops, such as corn, cotton, rice or wheat, which each have a target price yielding greater returns than the market price for soybeans. The Food Security Act of 1985, as amended, also accelerated reductions in program crop loan rates at a more rapid rate than reductions occurred for target prices, which had the effect of encouraging an increasing number of farmers to participate in farm programs.

Yet foreign soybean producers don't receive a target price, while they do experience the lower market prices occurring as a result of reduced price support loans for U.S. program crops. They keep expanding their soybean production because they see that soybean cash prices are more profitable than cash prices of other commodities.

As a result, U.S. production of soybeans and other oilseeds is down 31% and acreage is down 20% since 1979. Foreign production is up 52% and acreage is up 22%. As world demand grows each year for vegetable protein and oil, U.S. farmers are watching foreign competitors expand and seize profit opportunities away from them.

Often policymakers encounter farm program problems characterized by surplus stocks, low prices and rising federal costs. The problem faced by U.S. soybean farmers today isn't high stocks, low prices, and high federal cost. Our challenge is to achieve a U.S. soybean farm policy which lets us produce a quality crop for the market, generate a profit and benefit from a growing world market.

Increased farmer freedom to plant to capture market opportunities and improve agronomic practices is an important step in the right direction. However, to achieve the desired results, this base flexibility should be accompanied by a hard look at the relative returns from various crops to determine how "neutral" the planting signals are from the government to farmers. We believe that soybean returns must be brought somehow more consistently in balance with other crops.

As debate on the next farm bill unfolds, ASA looks forward to working with each member of these Subcommittees towards a sound policy that will chart a course into the next century.

Mr. Chairman, that concludes my remarks, Thank you very much for the opportunity to be here today. I welcome any questions you may have.

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June 27, 1989

**STATEMENT OF JOHN DENISON
IN BEHALF OF THE U.S. RICE PRODUCERS' LEGISLATIVE GROUP
BEFORE THE COTTON, RICE & SUGAR SUBCOMMITTEE
OF THE HOUSE AGRICULTURE COMMITTEE**

I am pleased to appear before you today in behalf of the U.S. Rice Producers' Legislative Group. As you know, our Group represents rice producers in the major rice producing states, and I am Chairman of the Louisiana delegation to the Group.

The hearing was called to review the crop acreage base provisions of the 1985 farm bill. In particular, we understand that the Subcommittee is seeking testimony on a proposal that is variously called the "triple base" or "flexible base" plan. Essentially, this plan would call for dividing the permitted acreage, namely, the portion of a base for which a producer may plant his program crop into two parts. On one part, the producer would receive program benefits on the acreage planted to the crop and on the other part, a producer would be free to plant any crop but could earn no program benefits on that production. In essence, the production would be "on the market".

Our Group met last week and decided to oppose the provision as a thinly disguised effort to cut target prices. In the rice industry in many sections of the country, producers do not have an alternative crop -- the land is suitable solely for the production of rice and the provision would be of no benefit.

The budget resolution has called for a reduction of \$600 million in expenditures for agricultural programs over which the Agriculture Committee has jurisdiction, and we are of the view that these savings can be achieved without reducing target prices. At this juncture, we believe it is too early to make commitments as to the budget reduction that must be made in the commodity programs for future years. We agree with Chairman de la Garza's comment that agriculture has made very substantial contributions to reduction of the budget deficit. It is our hope that if reductions are necessary, methods can be found for meeting the requirements without affecting target prices or farm income. In short, we believe that any discussion of methods for reducing target prices is premature.

We understand that another reason for this proposal is to permit flexibility in production so that producers may be able to produce alternative crops for which there may be a shortage. There are other means of achieving that objective without adverse effects on farm income. For that matter, if producers of other program crops should wish to volunteer for a triple base plan, we obviously would not object but wish at this time to reiterate that it is inappropriate for rice.

Another proposal has also been the subject of discussion today; namely, a proposal by Congressmen Roberts and Stenholm that would mandate that the Secretary allow producers to increase the crop acreage base of any crop on the farm provided there is a corresponding reduction in the acreage base of any other crop. The maximum adjustment under the proposal would be 20 percent of the farm acreage base. With respect to this proposal, there are a number of considerations to be taken into account. On the one hand, the proposal does permit a certain flexibility in shifting production as between program crops. On the other hand, it makes it difficult for the Secretary to provide for a meaningful acreage limitation program for crops in surplus supply not knowing to what extent there would be a shift in production after announcement of the program. Also there is no assurance that the shift in base will be to crops for which there are insufficient supplies. There are other considerations as well pro and con.

Accordingly, our Group discussed these issues at our recent meeting but was of the view that the proposal needed further study before we were prepared to express a position.

I would be pleased to respond to any questions.

STATEMENT BY MR. FLOYD ANDERSON
PRESIDENT, NATIONAL SUNFLOWER ASSOCIATION
before the
Subcommittee on Wheat, Soybeans, and Feed Grains
and the
Subcommittee on Cotton, Rice, and Sugar
Committee on Agriculture
U.S. House of Representatives

June 27, 1989

Good morning Mr. Chairmen, and members of the Subcommittees. I am Floyd Anderson, a farmer from Brocket, North Dakota, and President of the National Sunflower Association. NSA represents 11,000 producers and the sunflower processing and seed industries in seven states. We appreciate the opportunity to comment today on various proposals for adjusting the conditions for planting alternative crops on base program acreage.

It is no secret that the current base system has been a disaster for the production of sunflower and other commodities that compete with program crops for the same acreage. Crop-specific bases are too rigid, and encourage the planting of program crops. The limited substitution options for non-program crops available since 1986 provide only base protection, forcing non-program crops to compete with government benefits as well as with prices for program crops. When prices are low, producers plant their program crops. When prices are high, they often stay out of the program to build base. Despite attractive prices this Spring, I doubt if ten percent of the 350,000 sunflower acres enrolled in the 10/25 program for 1989 were actually planted.

If we were to choose from the options that are "on the table" for this hearing, sunflower producers would favor some form of limited flexibility that either guarantees or denies benefits on a portion of base acreage, regardless of the crop planted. Under either approach, base history must be protected, and producers should retain the right to plant sunflower, and other non-program crops, outside their base without penalty.

Balancing the competitive conditions for domestic acreage will solve only part of our problem, Mr. Chairman. We also compete with oilseed producers in Europe, who receive two to three times the world price for their crops. As an oilseed that is up to 80 percent dependent on foreign markets, much of sunflower's lost acres can be attributed to the highly subsidized domestic and export programs of our international competitors.

I know that members of your Subcommittees are familiar with the sharp decline in U.S. oilseed production, processing, and exports during the 1980's. Other than to mention that sunflower acreage has fallen 70 percent since 1981, I will not repeat the statistics that reflect this crisis today.

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What I would like to stress is that our farm program does not provide oilseeds with the income guarantees of program crops. To maintain acreage, we must compete strictly on a price basis. And with limited budget exposure, there is little leverage to sustain an aggressive oilseed export program.

Mr. Chairman, the sunflower industry was outspoken in opposing a farm program in 1981 and 1985. We supported a marketing loan for soybeans and sunflower in 1987 and 1988. We are aware of the budget constraints facing this Committee in writing the next farm bill, and recognize that providing oilseeds with the safety net of program crops may not be feasible.

At the same time, Congress must recognize that our multi-billion dollar industry is in serious jeopardy. We are losing oilseed acreage, jobs, infrastructure, and exports every year. Oil imports are at record levels. We are, in effect, exporting our oilseed industries rather than our oilseeds.

We in the sunflower industry believe that the next farm bill is the right time and place for Congress to develop a comprehensive response to the oilseed crisis. Of the \$11 or \$12 billion spent annually on commodity and export programs, oilseeds account for less than \$100 million. A way must be found to reallocate Federal resources if our industries are to have a fair chance of survival in the 1990's.

Mr. Chairman, there used to be a lot of buffalo in North Dakota. Then the "free market" took over. Today, what buffalo remain are in protected parks. I have watched the sunflower crop in my state shrink in much the same way. Without wearing out an already-overused analogy, oilseeds will "go the way of the buffalo" if the same policies are pursued in the next farm bill.

This concludes my statement, Mr. Chairman. I will be happy to respond to any questions you or other members of the Subcommittees may have.



Subcommittee on Cotton, Rice,
and Sugar, and
Subcommittee on Wheat, Soybeans,
and Feed Grains
Committee on Agriculture
U.S. House of Representatives

Statement of Grant B. Buntrock
National Farmers Organization
June 27, 1989

REVIEW OF CROP ACREAGE BASE PROVISIONS
OF THE 1985 FOOD SECURITY ACT

I want to take this opportunity to commend the Chairmen and members of both subcommittees for your timely actions in holding this hearing in preparation for the 1990 farm bill. National Farmers Organization feels you are squarely on the mark in identifying "flexibility" as one of the major problems inherent in the 1985 Food and Security Act. Under current program requirements, a producer's ability to make planting decisions in response to commodity supply levels, or culturally sound crop rotation practices is severely limited.

Prior to joining NFO, I worked for ASCS in USDA and was involved in the administration of farm programs at both the local and the national level. During that period of some 25 years, I do not believe I have seen a farm program with less planting flexibility for the producer than the current farm program, and I am including the late 50's and early 60's when mandatory controls and marketing quotas were in effect for many of the "program" crops (wheat, corn, cotton, etc.). The current program, while voluntary in theory, in reality has been economically mandatory for the vast majority of producers. During the 60's and 70's feed grain program participation in the corn belt ranged from 20 to 30% compared to 80 to 90% in recent years.

Increased program participation in areas that historically had not participated in farm programs should have had a very positive impact on the supply of our surplus commodities, and therefore improved prices in the marketplace, but it did not. As

we are all aware, under current program requirements, a producer must plant up to his full base permitted to receive maximum program benefits and preservation of his farm base for future years. A large portion of net producer income for program commodities comes from government income support payments rather than the marketplace.

In our judgment there are two underlying factors which have limited a producer's flexibility to make cropping decisions based on sound cultural practices for his farm, or to respond to reduced supply levels for a particular commodity. Whether intended or not, the 1985 Food and Security Act has provided for the USDA to become the major determining factor in setting the price for our commodities in the marketplace. Farm program policy historically has been credited or sometimes discredited for its intervention in the marketplace, but I don't believe it has ever before had the sustained major impact on price or crop production as it has had in recent years. Commodity certificates, CCC sales catalogs, direct export subsidies, release of farmer owned reserves, etc., has played a very significant role in affecting market prices. For example, through a combination of certificate redemption and outright cash sales, CCC has placed 900 million bushels of wheat, 2.4 billion bushels of corn, and 456 million bushels of soybeans into the market during the past three years. You don't do that without negatively affecting market prices and defeating the purpose of the program.

I realize that in this area of overall market impact, for which the 1985 FSA was designed to expand export markets, I may be getting a little beyond what your committees had intended for this hearing. So, having made that point for the record, I will limit our suggestions to the area of planting flexibility at this time.

The second strong influence against flexibility is the relationship of price support or income support levels between the various commodities. An old rule of thumb for many years at USDA was that the soybean price support should be approximately 2 to 2 1/2 times the support level for corn to compete for acreage in the corn belt. Price support for soybeans today is only a little over 1 1/2 times the income support level for corn. We believe that is the major reason that soybean production in the corn belt and many areas of the Southeast has declined in recent years.

In South Dakota, where I am from, oats were once a significant part of most cropping plans; in recent years we have quit growing oats, as many farms in that area have done, in favor of more wheat and barley. The established program yield for oats on our farm (which is representative of the area) is 51 bushels

per acre compared to 55 bushels for barley. The 1989 target prices are set at \$1.50 per bushel for oats and \$2.43 per bushel for barley. By multiplying the program yield times the target price for each of the commodities, you will immediately see a program advantage of \$57.15 per acre in favor of barley. Nationally, planted acreage of oats is only a little over one half of what it was 10 years ago. Today we are importing oats from Europe as well as Canada.

Even with the option of using substitute provisions for soybeans or oats, producers will not use this provision in any major way unless we set price supports and program benefits in the proper relationship between commodities.

As a first step we would recommend that your committees request the USDA to conduct a review of the relative price support relationship between soybeans and other program crops and to require appropriate adjustments. For example, under current law, USDA is required to set support levels for feed grain crops other than corn at their relative value to corn.

As long as we are dependent on program payments for our crop income, and the relative relationship between the support level for the various commodities is out of line, it will continue to affect our flexibility in making planting decisions.

We do not feel that the "triple base" theory or other complicated base substitution schemes will really address these underlying problems.

NFO proposes that acreage bases and program yields be eliminated and/or converted to a farm bushel or poundage base. Price support loans or other program benefits should then be limited to the established bushel or poundage base for the farm. The farm production base could then be adjusted up or down from one year to another, based on a national production goal for each of the various commodities. Production in excess of the established base would be without program benefits but could be sold into the open market. You may provide that a farm's excess production could be carried over to the next year and be eligible for price support in the event of under-production in the subsequent year.

We believe there are many advantages to this approach over the current base acreage provisions. First, it would provide much greater planting flexibility, since a producer would not have the concern over base preservation, and a farm's program benefits would not be measured by the number of acres planted. Favorable environmental impacts would be significant, since there would no longer be such a strong incentive to increase acreage

yields through heavy chemical application. Budget exposure and program costs would be reduced by limiting payments and price support loans to the bushel or poundage base for the farm. Last but not least is the simplicity of this approach, compared to a complicated scheme of juggling base acreages and keeping records of the various commodity bases. This system would be much better understood by producers and could easily be administered by ASCS.

In closing, let me assure you of our support for a stronger farm program in 1991. We are convinced that it will be necessary to design the next program to operate at much lower cost; however, we feel that programs can be designed within these budget constraints which will be much more beneficial to the producer in the marketplace.

Again we want to thank both Chairmen and the members of your subcommittees for this opportunity to appear before you today. I will be most pleased to answer any questions that you or any of the members may have concerning this testimony.

STATEMENT OF AFBF BEFORE HOUSE AGRICULTURE SUBCOMMITTEES
ON WHEAT, SOYBEANS AND FEED GRAINS AND COTTON, RICE AND
SUGAR REGARDING FARM ACREAGE BASE PROVISIONS

Presented by Robert I. Nooter
Assistant Director for National Affairs
American Farm Bureau Federation

June 27, 1989

Thank you for the opportunity to present the American Farm Bureau Federation's (AFBF) views regarding the base acreage provisions of the Food Security Act of 1985. This issue has been the subject of many policy discussions within the Farm Bureau.

Developing solutions to the shortcomings of the 1985 farm bill base acreage provisions is a difficult task because any change is bound to affect individual producers in different ways due variables such as farm structure, commodities produced or region of the country in which the farm operates. I commend you for exploring the issues concerning this topic early in the process of considering the next farm bill.

Under the current program provisions, producers are prevented from planting alternative crops on program crop acreage because of the loss of farm program benefits, specifically the loss of base history. Foregoing price support loans and or deficiency payments may make economic sense in situations where the expected returns to the alternative crop can offset the value of those program benefits. However, even if there is a strong economic incentive to plant another crop, producers have resisted because of the penalty of losing the base history.

In many instances, loss of base means a loss of capital because of the increased value placed on land that has a program crop acreage base. Planting outside the crop acreage base results in forfeiture of current crop year program benefits and decreases the capitalized value or land price associated with that farm. This reality has created a powerful incentive for producers to continue to plant within their assigned crop acreage base despite the desire to plant alternative crops in response to economic, agronomic or environmental benefits that may be realized.

A variety of solutions to the limitations of the current system have been proposed but Farm Bureau would ask you to keep these points in mind when developing responses to the current situation.

(1) Simply giving producers the opportunity to shift program acreage from one commodity to another will not assure complete responsiveness to additional demand for a particular commodity.

Producers will respond to the economic returns that they expect to realize from any given mix of commodity production. A good example would be the limited success of the 10/25 soybean/sunflower acreage shift provision authorized under the Disaster Assistance Act of 1988. Producers apparently decided that the returns derived from the traditional program crops would be superior to that of soybeans/sunflowers. Their decisions will be made in consideration of income anticipated (both from the market and from any deficiency payments associated with the crop) compared to their expected cost to produce the commodity.

(2) Some producers may not be able to take advantage of the benefits associated with increased planting flexibility. Their production options may be limited because of climate, soil type, available capital and equipment. Therefore if additional flexibility is coupled with reductions in program benefits, these producers will feel the effects of the income loss but gain nothing from the flexibility.

(3) Certain producers may be detrimentally affected by proposals that would give program crop producers additional planting flexibility. For example, Farm Bureau nonprogram crop producers are concerned that they may experience lower income because of the reduced prices from the increased production. As a general farm organization representing farmers and ranchers of all sizes and producers of virtually all commercially produced commodities grown in this nation, Farm Bureau is particularly sensitive to the concerns of producers of both program and nonprogram commodities. We firmly believe that benefits extended to producers of some commodities should not come at the expense of other producers.

AFBF would like to offer the following comments regarding several of the base acreage proposals that have been discussed:

H.R. 2294: The bill, introduced by Mr. Stenholm and cosponsored by Mr. Roberts would require the secretary to permit farmers to shift up to 20 percent of their farm acreage base from one program crop to another. Farm Bureau is very supportive of making the discretionary authority written in current law mandatory which would permit producers to shift up to ten percent of their farm acreage base from one program crop to another. We believe that this authority would address part of the inadequacy of the current formula for assigning crop acreage bases. It would allow producers to minimize the base distribution that may be assigned to crops that no longer fit the farmer's rotation or combination of commodity output. Therefore we would support adoption of H.R. 2294 this year if it were modified to limit the shift to ten percent.

Triple base proposals: proposals to reduce the amount of permitted acreage that would be eligible for deficiency payments have been discussed for several months. The objective would be to reduce payments through a reduction in the acreage eligible for those payments rather than reducing the per unit income support rate. The advantage would be that acreage on which

no payments would be made would be freed from some or all of the restrictions on commodities eligible for planting.

Farm Bureau has reviewed this concept but has not endorsed it as a means of achieving greater flexibility. The triple base option has some attractive features for some farmers but there would be the possibility of inequitable consequences in the area of nonprogram crop producers. Our research concurs with the FAPRI analysis which shows that farm income would be reduced on almost a one-to-one basis with the reduction in government payments. The distribution of this loss of farm income is likely to be borne to a great degree by nonprogram crop producers.

I thank both the subcommittees for the opportunity to present these views to you today. AFBF looks forward to working with you as these issues are being decided by the Congress this year and in the 1990 farm bill debate. I would be glad to respond to any questions that you may have.

TESTIMONY OF THE NATIONAL FARMERS UNION BEFORE THE JOINT
SUBCOMMITTEES ON WHEAT, SOYBEANS, AND FEEDGRAINS, AND COTTON,
RICE, AND SUGAR, JUNE 27, 1989.

Thank you, Mr. Chairman. My name is Howard Lyman, and I am here this morning on behalf of the National Farmers Union, a general purpose farm organization representing nearly 300,000 families in 26 states. I appreciate the opportunity to be here this morning to share our concerns on the commodity base provisions of the 1990 farm bill.

The intent of this hearing is to review base acreage systems that would promote greater flexibility for the farmer, and comment on the triple base concept as a viable option in the future.

The triple base idea is, in our opinion, "Decoupling Lite". This concept will drive market prices lower and encourage greater production which in the long run will leave only the producer that had the largest bank account at the start of the program. The concept of growing a crop and selling it below the cost of production is not the kind of flexibility that American farmers want, it is like giving a drowning man a drink of water.

The idea that there are many opportunities in the area of non-program crops is a myth. In fact in very short order the profitability of these crops will be shattered if large numbers of acres are diverted out of the major program crops.

When Congress debates and writes the new farm bill, we must remember several significant changes have occurred since the 1985 farm bill debate. There is a very large block of the American farm acreage in the Conservation Reserve Program (CRP), 31 million acres, and with the possibility of reaching the 45 million acre level, the need for large acreage set-asides will not be needed.

There is no doubt the American consumer is going to be much more interested in how the food that they consume was grown and why the various methods were used. The cost of the product will not be the primary interest to the consumer. The American taxpayer is also going to demand, in return for the money the federal government spends, that the natural resources be protected. These concerns are going to have to be resolved in the 1990 farm bill or the rules farmers operate under will be written in other committees.

The opportunity for the American farmer to start on the path of Low Input Sustainable Agriculture (LISA) will have to be in the 1990 farm bill. This will mean giving the farmer the flexibility to use all his resources to grow his share of the national goal. The net income of his operation will always be the most important factor to the farmer and being able to mostly achieve it at the marketplace has a very high priority.

Costs of controls that the taxpayer and the consumer feel are needed will be dictated by food safety and the environmental concerns. The increased cost of the commodity to keep the product in line with food safety and environmental policy of the nation will be supported by the producers because the farmers know they must satisfy the customer. These standards must not be under cut by imported food and foreign producers must adhere to the same standards as domestic producers.

The 1989 policy of statement of National Farmers Union, adopted by delegates in convention at Little Rock, Arkansas in March 1989, stated the direction that they wanted the 1990 farm bill to take. These provisions are:

- "1. We support a long-term, predictable federal farm program.
- "2. To achieve a parity of income with our urban and suburban neighbors, we support cost of production plus a reasonable profit as the primary income goal for farmers. Program benefits should be targeted to family farms.
- "3. Marketing quotas and marketing certificates (supply management based on bushels and poundage instead of acreage) should be utilized in supply management programs, when adopted with producer participation.
- "4. Tiered marketing quotas, set asides, and price supports, together with realistic overall and per-program limitations should be enacted and effectively enforced on all farm program provisions so program benefits are targeted to small- and medium-sized farmers.
- "5. The farmer-held grain reserve program should be revised and improved so that:
 - "a. it functions as an "ever-normal" granary;
 - "b. loans are at 110 percent of the base loan rate;
 - "c. storage is paid to farmers at commercial rates;
 - "d. it includes all storable crops;
 - "e. immediate entry into the farmer-owned reserve should be permitted;
 - "f. extension of loan should be granted if market prices are below release levels at time of maturity of reserve loan.

- "6. The Commodity Credit Corporation (CCC) should negotiate long-term agreements with importing nations."

We believe the best methods to achieve these goals are listed in order below:

1. Price and income protection, on a family farm level of production, that returns to the goal of assuring producers a reasonable livelihood from the marketplace; This can be achieved with a target that reflects the total cost of production and a loan that is capped as to the total amount that is allowed under loan.
2. Commodity bases according to bushels rather than acres -- this concept would allow greater predictability of program costs, since payments would be based on units of production. It would also allow a farmer to use more of his land to produce the needed amount, lowering variable costs and allowing for less intensive land and water resource use. Farmers producing extra bushels could use the commodity as a form of tangible crop insurance.
3. Flexible commodity bases -- farmers must have some degree of flexibility in their planting decisions that will enable them to respond to the dictates of the local market and the needs of the environment, without jeopardizing their economic position or the government's food security objectives. This should include a multi-year setback to allow time to establish a cover crop.
4. Proven yield -- producer yields should be based on actual history with consideration given for disaster years. This would make programs attractive to better producers who would receive a higher return. It would also add some consistency between commodity programs and crop insurance.
5. Loss of base -- to streamline government operations and to discourage jumping in and out of the commodity programs, producers who choose to leave the program should have to stay out more than one year and sacrifice some of their commodity base.
6. Targeting of scarce federal program dollars to family-sized operations. Not only would this reduce program costs, it would benefit those people most likely to spend their income in their local community.
7. Farmer owned reserve -- commercial storage rates should also be paid to farmers who participate in the farmer owned reserve. The reserve program could be used for both national and international reserves, and could be linked with international agreements on world hunger. World food reserves should be the responsibilities of all developed nations and the cost should be borne by the taxpayers instead of the farmers.

These are some of the ideas National Farmers Union members

believe will strengthen rural America and provide a stable base from which to work into the future. There will be many workable solutions and we will be pleased to work with all of the members of Congress to craft the best solution to the 1990 farm bill.

Thank you again for the opportunity to express our concerns. I would be happy to answer any questions you might have.



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Testimony of

**DAVID SENTER, NATIONAL DIRECTOR
AMERICAN AGRICULTURE MOVEMENT**

Before the

Subcommittees on Wheat, Soybeans, and Feed Grains

and

Cotton, Rice, and Sugar

House Committee on Agriculture

June 27, 1989

Thank you, Mr. Chairman. I am David Senter of the American Agriculture Movement. AAM is a general farm organization which represents farmers producing a wide variety of commodities in 32 states. I appreciate your invitation to be here today to share my organization's ideas on the structure of commodity bases for the next farm bill.

AAM believes that commodity bases must be designed in such a way as to allow common sense decisions both by producers and by program administrators. Programs must be structured enough to allow for predictability and long-term planning, yet flexible enough to accommodate unexpected circumstances and local conditions.

For producers, this idea translates into several specific recommendations. First, we commend the House for its quick action on the Jontz/Madigan proven yield bill, H.R. 2042. Common sense requires that producers be paid according to their ability to produce, not by some artificial formula that can be manipulated at the whim of the Office of Management and Budget. AAM does not support creating a separate "payment base" to cut program costs. The way to cut commodity program costs is to raise loan rates, which will give producers a fair price at the marketplace, not to drive prices down and then slip the rug out from under the support program. We believe that payments should be in exchange for production, and we will oppose any efforts to force farmers or taxpayers through a back door into "decoupling,"

where the government gives farmers handouts for a few years whether or not they contribute toward feeding this nation and the world.

Second, we would recommend allowing producers of wheat and feedgrains, and soybeans to switch up to 20% of their commodity base among those three commodity groups in order to respond to market needs. If a producer chooses to plant a traditional rotation crop, such as alfalfa or sweet clover, in order to use common sense soil conservation practices, commodity base should be protected. We do not support the idea of cutting back on the amount of production eligible for the program, and then making it up to program participants by allowing them to destroy the markets of producers of non-program crops. Too often in the last fifteen years, farmers have been pitted against each other by the design of the government programs. Flexibility in decision-making should not be the equivalent of cutting costs by cutting producers out of the programs.

Third, to bring common sense back to planting and marketing decisions, we would also urge you to restore the traditional price ratios among grains. We believe this could avoid future situations where we fall short on one crop because the commodity program, rather than the market, has made another crop more profitable. In oats and soybeans, we believe this lesson was learned last year. The corn program discouraged the production of those two crops, which turned out to be in short supply when the drought hit. I have attached AAM's recommendations on the proper price ratios to my testimony.

Corn is also a good example of how current commodity programs have discouraged the use of traditional soil-restoring crop rotations, for fear of losing program base. Our fourth recommendation would be to protect commodity program bases to allow producers to do what they know is right for the soil to keep it productive for future years. We would suggest establishing a three-year program, similar to the CRP. This Soil Restoration Program (SRP) would allow producers to bid in land for three years. All soil types should qualify with a cap placed on the amount allowed to be bid in by each producer. We suggest the cap should not exceed 30%. This program would complement the existing 10-year CRP program.

In addition, we also advocate stating commodity bases in terms of bushels and pounds rather than acreage as a fifth recommendation. From a conservation standpoint, it just makes sense to end the practice of having acreage set-asides for conserving uses at the same time as farmers are basically paid for as much as they can possibly produce off their program base acreage. From a planning standpoint, it is easier for producers trying to manage their input costs, and it is also easier for program administrators to plan supply needs and determine program costs.

Sixth, soybeans should be made a program crop, with target prices, and supply management and conservation compliance provisions similar to wheat and feedgrains. Producers should have the income protection, and program administrators should have the ability to determine necessary production levels and reserve needs. Producers of crops should be able to use soybean base as a part of their rotational practices.

Seventh, we recommend allowing producers to use the same established yield history for all USDA agencies -- including ASCS, FCIC, and FmHA. Producers should only have to prove their ability to produce once to USDA. Certainly, the agency has the computer capacity to share information and cut down on administrative red tape.

Eighth, AAM recommends discouraging the practice of jumping in and out of the program in order to build base. We would suggest requiring any producers who choose to leave a program to stay out for a second year, and then to take a "zero" yield for the years out once they return to the program. Stepping out of the program for a year to build base frustrates the purposes of supply management, and can increase taxpayer costs. We certainly shouldn't reward those producers who are trying to farm the program instead of the land.

AAM supports the continuation of the marketing loan program for cotton and rice, but we believe that loan rates should be raised to the target price level. We would recommend requiring that, whenever an acreage setaside or other supply management tool may be in effect for cotton and rice, that producers' bases be frozen for the year.

Finally, to balance the need for consistency with the need for flexibility in program administration, we would recommend placing as much authority as possible with the local ASCS county committees. These people are in the best position to tailor programs to fit local conditions, while understanding local practices well enough to distinguish between inadvertent errors and a substantial failure to comply with the program.

AAM believes that it is quite possible to design commodity bases to allow us to meet domestic, export, and reserve needs without creating a complicated and costly program. Thank you again for the opportunity to express our views on how to achieve this goal. I would be happy to answer any questions you might have.

Attachment

The following is the Industry accepted price ratio between commodities.

AAM recommend that loan rates and target prices follow established ratios which are:

Beans to corn	2.4	to	1.0
Wheat to corn	1.45	to	1.0
Cotton to beans	10.0	to	1.0

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COMMITTEE ON
AGRICULTURE
COMMITTEE ON
SCIENCE, SPACE,
AND TECHNOLOGY
SELECT COMMITTEE
ON AGING

Congress of the United States
House of Representatives

Washington, DC 20515

June 27, 1989

Dear Mr. Chairman:

I thought you may be interested in the results of an informal survey which I have conducted regarding agriculture budget cuts for FY 1990. I conducted the survey among the members of my Agricultural Advisory Board which consists of 68 producers and agriculture-related business persons in the state of Idaho. Twenty-four members responded.

**Results of survey of Agriculture Advisory Board
on 1990 Ag Budget Cuts
n=24**

Option #1: 5% reduction in target prices -- 9 supporting

Reasons for supporting: cited largely by livestock producers; viewed as least disruptive to programs.

Reasons for opposing: attempts to balance agriculture budget through wheat and feed grain programs while other programs do not suffer cutbacks; concerned about precedence this will set for future years.

Option #2: Triple base approach -- 4 supporting

Reasons for supporting: provides planting flexibility and reduces government outlays.

Reasons for opposing: potential impact on non-program crop plantings, e.g., producers could plant any non-program crop on up to 20% of their acreage, thereby having a tremendous effect on quantities of specialty crops such as potatoes, dry beans, rape seed, etc.

Option #3: Across-the-Board cuts -- 10 supporting

Reasons for supporting: Distributes reductions to all agriculture programs.

Reasons for opposing: support of other choices; small programs in need of increased funding suffer cuts.

Other options suggested:

- o tighter targets and lower payment cap: 2
- o raising loan rate: 1

Sincerely,

Richard H. Stallings
Member of Congress

CRS Report for Congress

The Triple Base Plan

Carl Ek, Analyst
Food and Agriculture Section
Environment and Natural Resources Policy Division

June 26, 1989



Congressional Research Service • The Library of Congress

THE TRIPLE BASE PLAN

SUMMARY

Early in 1989, several Members of Congress and Administration officials initially expressed interest in a new plan to limit Federal farm program spending called "triple base." Under this plan, farmers would receive Government payments only on a portion of the land they plant; the rest of their production could be sold in the market, but would not receive Federal price or income supports. This option appeared to have some advantages over reducing target prices, the most direct means of reducing payments to farmers.

The idea of paying farmers on a reduced percentage of the land they usually plant--their crop acreage bases--has at least two major attractions for policy makers: it would help shrink Government spending on agriculture, but, unlike lower target prices, the reduction would not necessarily amount to a dollar-for-dollar cut in farm income, as farmers would still be able to raise other crops on their unpaid permitted acres.

Farm group representatives, however, have objected to the proposal on several grounds. The chief objection is that farmers in some regions are only able to grow one type of crop, and thus would not be able to take full advantage of the provision. Protests have also been registered by farmers who specialize in raising crops not covered by farm programs; they are concerned that their incomes would suffer if, under a triple base provision, thousands of program crop farmers would be allowed to switch to non-program crops.

Although interest in the triple base plan appears to have waned, budgetary pressures may lead lawmakers to revive the concept later in 1989 during the budget reconciliation process. Agricultural policy makers also predict that the triple base plan will be debated in 1990, when most farm programs are reauthorized.

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THE TRIPLE BASE PLAN

INTRODUCTION

Early in 1989, U. S. agricultural policy makers began discussing a change in farm programs called "triple base." Under this approach, which could assume several different forms, farmers who participate in commodity programs would receive Federal payments on only a portion of their permitted crop acreage. The impetus for the program change came from the desire to reduce farm program spending, but supporters of the concept argued that it would also convey certain advantages for the agricultural sector, such as giving producers greater planting flexibility. After an initial surge of interest in Congress and the U.S. Department of Agriculture (USDA), support for the triple base plan appears to have diminished. But the continuing need to limit farm program spending in the future may cause policy makers to revive the plan, perhaps during consideration of the 1990 farm bill.

This paper discusses the rationale for the triple base plan, describes how it would be administered, summarizes studies of the plan, reports farm group reactions, and outlines several options Congress may consider.

BACKGROUND: WHY TRIPLE BASE?

When the 101st Congress opened, farm policy makers, responding to pressure from the Office of Management and Budget and the congressional Budget Committees, lost little time in initiating a search for methods to cut spending on agricultural programs.¹ However, price and income supports had already been scaled down under existing legislation, so alternative approaches to further reducing farm program outlays, such as the ones described below, encountered stiff resistance from different quarters.

The cost-cutting options that are typically raised are related to the three policy tools used to support the farm sector: price supports, income supports, and supply management. USDA supports the prices of several agricultural commodities through the nonrecourse loan program, under which a farmer may take out a Government loan at a predetermined dollar-per-bushel level, with his crop as collateral. If, when the loan matures, the producer finds he

¹ For additional information, see: U.S. Library of Congress. Congressional Research Service. Agriculture and the Budget. By Geoffrey Becker. IB87032. Updated regularly.

is unable to profitably repay the loan plus interest, he may forfeit his collateral, and the USDA must assume title to the commodity as payment.

USDA provides income support to farmers through deficiency payments, which are based upon the difference between an "ideal" price, called the target price, and the higher of either the loan rate or the average market price. This difference is then multiplied by the farmer's output to calculate his total deficiency payments.

Finally, in exchange for receiving price and income supports, farmers must usually agree to idle a certain percentage of their land; USDA uses these acreage reduction programs to control aggregate supplies--and prices--of different commodities.

The most direct means of reducing farm program spending, then, would be to change program parameters. For example, if USDA required program participants to take more land out of production, total commodity supplies would shrink and market prices would rise, which would likely narrow the gap used to calculate deficiency payments. Alternatively, USDA could achieve the same effect by raising the loan rate. According to most economists, however, both of these price-enhancing changes might have an adverse effect upon U.S. agricultural exports. A third way to reduce USDA spending on farm programs would be to lower the target price. But that method is the most politically sensitive option, as a dollar-for-dollar cut in deficiency payments would approximately equal a dollar-for-dollar cut in farm income.

The triple base plan is essentially a refinement of a reduction in deficiency payments. In a nutshell, the plan would reduce the number of a producer's acres eligible for price and income supports. For example, a farmer with a 100 acre wheat base who participated in the wheat program might be permitted to grow wheat on 90 acres (that is, he would not be permitted to plant on the other 10 acres, which would be taken out of production and placed in conserving uses under the acreage reduction program), but he would receive Government supports only on 80 acres of his production (rather than the current 90 acres). On the unpaid 10 acres not in conserving uses, he would be allowed to grow and market a crop, but he would not receive Government assistance.

Thus, under the triple base plan, farmers would receive smaller deficiency payments than under current programs, but they would be able to partially recoup their loss by selling on the market those commodities they had grown on their third, unsupported base. USDA would be able to demonstrate budget savings, just as though target prices had been reduced, but farmers presumably would not suffer the same loss in income.

Promoters of the triple base concept also point out that implementation of the plan might help remedy some of the supply imbalances that have been caused in part by the current structure of commodity programs. Oats and

soybean production have fallen off due to relatively higher price supports for corn and wheat, and to other program rigidities. Farmers could use their third base to grow these or other commodities that have attractive market prices, supporters argue.

Finally, some observers have argued that by compelling all participating farmers to rely solely upon market sales for a certain portion of their production, the triple base plan would serve to gradually introduce a greater market orientation among farmers--which was considered by many to be one of the general goals of the 1985 farm bill.

PROGRAM MECHANICS

Under current programs covering wheat, feed grains, cotton and rice, a participating farmer must agree to take a certain percentage of his land out of production in exchange for receiving price and income supports. If the farmer has a wheat base of 100 acres, and the Secretary of Agriculture announces an acreage reduction program (ARP) of 10 percent, the farmer must agree to reduce his wheat base by 10 acres if he wishes to receive price and income supports. The reduced acreage would have to be planted with an approved conservation cover crop. His program payments are then calculated according to the production on his permitted acreage, which is equal to his wheat base minus the reduced acreage (100 acres - 10 acres = 90 acres).

Under a triple base, a farmer would have three categories of "base" acres: upon entering the commodity program, he would agree to take a certain percentage of his land out of production, as under current programs; this would be his first base. But the Government would make deficiency payments only on a certain percentage of his permitted acres--his second base. On the remainder of his permitted acres--the third base--the farmer would be free to raise a crop to sell on the market, but he would receive neither price nor income supports on that portion of his land.²

Under a 10/10/80 triple base plan, a farmer with a wheat base of, for example, 100 acres would be required to idle 10 acres under an acreage reduction program, but would have his deficiency payments based on 80 acres, rather than the full 90 permitted acres, as under current programs. The farmer would be permitted to grow oats (or some other crop) on the 10 acres

² The term "base," as used in current farm programs, refers to either the amount of land a farmer has devoted to a particular crop for the past 5 years, known as the crop acreage base (CAB), or it refers to the sum of the CABs, known as the farm acreage base. In discussion of the triple base concept, "base" is used to refer to portions of a farmer's CAB.

not idled or planted to wheat (the difference between his permitted acreage [90 acres] and his payment acreage [80 acres]).³

STUDIES

Although no legislation has been introduced, at least four groups of economists have examined the triple base concept:

Food and Agricultural Policy Research Institute (FAPRI)

In a study released in April, FAPRI economists compared the triple base plan with straight reductions in target prices.⁴ For their analysis, FAPRI limited the triple base plan to corn and wheat, and assumed that in both 1990 and 1991, acreage reductions would be 10 percent for corn and 5 percent for wheat; they further assumed that both corn and wheat growers would receive payments on 75 percent of their crop bases, so that corn growers would have 15 percent "third base," and wheat growers 20 percent. Farmers would be allowed to raise any crop they chose to on the third base. Given these and other assumptions, FAPRI projected that corn and wheat prices would rise under the triple base plan, and that soybean prices would fall. FAPRI estimated that the new proposal would save approximately \$1.8 billion in crop year 1990 and \$1.9 billion in 1991. However, the Institute also found that "[f]or each dollar saved on government expenditures, approximately 85-90% is lost in net returns"; that is, a \$1.00 reduction in USDA outlays would equal an \$0.85 to \$0.90 reduction in net returns to farmers. Total net returns to producers in 1990 and 1991 would fall by \$1.5 billion and \$1.7 billion, respectively. The FAPRI analysis found that the triple base plan would affect both the Federal budget and farm income in about the same degree as a 5 percent target price reduction.

³ There are at least two ways of computing a farmer's third base. In the above example, the third base is calculated as a percentage of the crop acreage base, just as the reduced acreage is now computed. Another approach would be to express the third base as a percentage of a farmer's *permitted* acreage. Using this method, a farmer with a wheat base of 100 acres might enroll 10 acres (his first base) in a 10 percent acreage reduction program, leaving him with 90 permitted acres. If the triple base program stipulated that he would receive payments only on 90 percent of that amount, then his paid permitted acreage (his second base) would be 81 acres, and his unpaid permitted acreage (his third base) would be 9 acres.

⁴ Analysis of Three Options to Reduce Farm Support Expenditures. Food and Agricultural Policy Research Institute. Ames, Iowa/Columbia, Missouri. April, 1989.

U.S. Department of Agriculture (USDA)

In April 1989, Sen. Richard Lugar released a study of farm program budget options that had been performed at his request by USDA's Office of Budget and Program Analysis.⁶ Under the triple base plan constructed by USDA, all program crops⁶ would be subject to the provision (unlike the FAPRI analysis, which just applied to wheat and corn), and producers would be able to produce only program crops (plus soybeans) on their third (unpaid, permitted) base. In assessing this version of the triple base plan, USDA analysts found that if farmers received payments on 85 percent of their permitted acreage (see footnote 2), commodity program outlays would fall by approximately \$8.8 billion between FY90 and FY94--about the same as they would under a 5 percent reduction in target prices. The USDA study also noted that in the short run, this triple base formula would have the same impact upon farm income as a 5 percent cut in target prices.⁷

Abel, Daft and Earley (ADE)

On December 30, 1988, the economic consulting firm of Abel, Daft and Earley (ADE) issued a report that examined the likely effects in 1989 and 1990 of three variations on current farm programs.⁸ Their somewhat complicated version of the triple base plan, dubbed the "payment acreage approach," was based upon two key assumptions: 1) that USDA would have authority to reduce total deficiency payments for each commodity by a certain amount, and 2) that the Department would be able to adjust permitted program crop acreage to meet anticipated demand for the various commodities. Using this formula and other assumptions, ADE estimated that there would be no need in 1989 and 1990 for an acreage reduction program for wheat or feed grains--so the first "base" (the idled acres) would equal zero. Farmers would be allowed to plant program crops and/or any other crop designated by Congress on their unpaid acreage. Under their payment acreage approach,

⁶ Letter to Sen. Richard Lugar from Stephen B. Dewhurst, Director, U.S. Department of Agriculture. Office of the Secretary. Office of Budget and Program Analysis. April 18, 1989.

⁶ Wheat, corn, barley, grain sorghum, oats, upland cotton, and rice.

⁷ The memorandum contained no estimates on how farm income would be affected by a 5 percent reduction in the target price, although it is probably safe to assume that income would fall by approximately the amount of the projected budget savings. However, regarding the 5 percent target price cut, the analysis did note that "[p]roducer returns under the program generally [would] remain favorable to those outside the program through 1994."

⁸ An Analysis of Alternative Policies for Grains and Cotton. Abel, Daft & Earley. Alexandria, Virginia. December 30, 1988. p. 43 ff.

ADE estimated Government savings of \$2.5 billion in 1989 and \$2.3 billion in 1990, compared to ADE's baseline. ADE projected that gross returns to farmers would increase for wheat, barley, oats, and cotton, but would decline for corn, sorghum, and rice; overall, average annual gross returns for these commodities would fall approximately \$3 billion. However, these losses would likely be somewhat offset by increased returns to farmers from marketings of non-program commodities.

Agricultural and Food Policy Center (AFPC)

Economists from Texas A&M University examined the likely impact of two types of triple base plan on six representative Texas crop farms.⁹ The AFPC study determined that because of several factors (e.g., input constraints, limited markets, and capital requirements), most Texas farmers would not profit from being able to switch from commodities they had already been growing on their farms. Therefore, AFPC examined two triple base variations, one under which farmers would be limited to the same program crops they had been growing, and another scenario under which farmers would be permitted to plant a crop (program or nonprogram) that would offer the greatest net cash return (provided that a farmer had already been growing that crop on his farm). In terms of net cash farm income, return on investment, and probability of survival, AFPC found that Texas farmers would fare better under a continuation of current legislation than under the triple base options.

TRIPLE BASE PROBLEMS AND OPTIONS

During Clayton Yeutter's first appearance before the Congress as Secretary of Agriculture, he and some Members of the Senate Agriculture Committee expressed strong interest in the triple base plan. In April, the proposal was considered to be "on the fast track."¹⁰ But by the end of June, no bill had been introduced and interest seemed to have dwindled. Several reasons for this have been suggested.

Farmer Opposition

Since the concept was first aired, farm group attitudes toward the triple-base plan appear to have moved from skepticism to opposition. Farm organization critics have argued that the plan is being portrayed as a flexible

⁹ Agricultural and Food Policy Center. Texas A&M University. Impact of Reduced Program Payments and Flexible Base on Representative Texas Farms. By Delton C. Gerloff, James W. Richardson, Ronald D. Knutson, Edward G. Smith, and David Hartman. AFPC Policy Working Paper 89-6. June, 1989.

¹⁰ Pro Farmer. April 22, 1989. p. 1.

approach, when in fact it is a back door method for reducing support payments to many farmers. Opponents claim that the triple base plan is a budget-driven policy founded, not by a desire to coax farmers into the market, but solely by a perceived need to reduce Government outlays.

Some critics--chiefly from commodity organizations--also assert that the triple base plan would not help correct current supply imbalances among various crops. Because many farmers take their planting and marketing signals largely from the farm programs, opponents argue, program levels should be changed to reflect different commodity production costs and/or stocks-to-use ratios. This argument generally lends itself to support of the proposal to realign target prices, or to the notion of applying a triple base provision on some program commodities--those believed to be in surplus--but not on others.

The triple base plan is regarded by some as inequitable, since not all farmers can profitably raise more than one crop. Many midwestern grain growers, for example, can grow either corn or soybeans; but in the South, many producers have no choice but to grow either just cotton or just rice, and in certain plains States the soil and climate are only suitable for growing wheat. Midwestern farmers, therefore, might benefit from being able to switch to commodities in relatively short supply, such as soybeans or oats, whereas farmers in other regions might not be able to switch.

Program Options

An important question policy makers face regarding practical aspects of the triple base plan is which crops farmers should be allowed to grow on their unpaid permitted acreage. If they were allowed to raise only program crops and soybeans, this might reduce the Secretary's ability to control aggregate supplies. For example, if USDA had acreage reduction programs in place for both wheat and corn, and if thousands of corn producers decided to grow wheat on their unpaid permitted corn acreage, then USDA's supply control efforts for wheat would largely be thwarted. To a certain degree, however, it is likely that USDA would be able to anticipate farmer planting decisions based on expected prices and supplies, and would therefore be able to factor this type of farmer response into acreage reduction programs.¹¹

¹¹ Another question policy makers would confront in deciding whether to allow program crops on the third base would be how to handle the loan program. Deficiency payments are limited to a farmer's permitted acreage times the yield he established between 1981 and 1985 (excluding the high and low years). Nonrecourse loans, however, are based on actual production. If loans were prohibited on the third base, and if a farmer chose to grow the same program crop on both his paid permitted acreage and his unpaid permitted acreage, it might be difficult for local USDA authorities to determine how much of his corn would be eligible for the loan program.

On the other hand, if farmers were permitted to grow only non-program crops on their third bases, then supplies of some of those commodities would likely rise and prices would fall.¹² This could adversely affect the incomes of farmers who already raise such crops as potatoes, sunflowers, and dry edible beans. Producers who specialize in growing such crops would likely cry foul, as they do not receive Federal price or income supports for those crops, and could suddenly be thrust into competition with farmers who do receive Government assistance.

Some have suggested that this effect could be avoided by limiting third base production to new "industrial" crops such as jojoba, cuphea, and crambe, which can be used, respectively, in the production of lubricants, detergents, and plasticizers. Proponents argue that the encouragement of such new crop production would help diversify American agriculture, thereby reducing the dependence upon program crops. However, since commercial applications are just now being developed, the market potential of these crops is still somewhat limited.¹³

Although some people have pronounced triple base a dead issue for 1989, others point out that the budget reconciliation process may require congressional agriculture committees to find further spending reductions before Congress adjourns. This fiscal requirement, some observers caution, might induce Congress to resurrect the triple base plan before year's end.

Most observers believe that the triple base idea will be revisited during the 1990 farm bill debate. Depending upon what Congress decides to do with commodity programs in that legislation, triple base might become a more attractive option--both to policy makers and to producers. For example, if Congress continues the policy of scaling down target prices, farmers might be more receptive in the future to the idea of being able to plant part of their land to any crops they believe will yield a greater return, rather than being locked into producing just program crops with declining support levels.

One approach that has been suggested--for the short or the long term--would be for Congress to provide the Secretary of Agriculture discretionary authority to employ the triple base plan, and to establish a range for the size of the third base. USDA might not have to use the third base plan every year, but could put it in place just when budget shortfalls demand. Also, the triple base plan may be a preferable option to many because a straight target

¹² Conversely, this approach would tend to raise program crop prices. Since deficiency payments are based on the difference between target prices and market prices, higher market prices would allow USDA to garner additional budget savings.

¹³ For further information, see: U.S. Library of Congress. Congressional Research Service. *New Crops and New Farm Products: A Briefing*. By Jean Rawson. 88-771 ENR. December 19, 1988.

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price cut would be viewed as permanent, whereas the triple base option could be implemented from year to year to comply with budgetary requirements. For just this very reason, however, many farmers may continue to be mistrustful of the triple base plan, reasoning that they would not know from one year to the next whether USDA would make reductions in permitted paid acreage.

